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The Commonwealth of Massachusetts; Auditor's de

(DEPARTMENT OF THE AUDITOR)

ANNUAL REPORT

FOR THE

FISCAL YEAR ENDING JUNE 30, 1953-55

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THOMAS J. BUCKLEY
STATE AUDITOR

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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

For the

FISCAL YEAR ENDING JUNE 30, 1953

I have the honor to submit the Annual Report of the Department of the Auditor for the fiscal year, July 1, 1952 to June 30, 1953.

Section 12 of Chapter 11 of the General Laws defines the duties of the Department of the State Auditor.

"SECTION 12. The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, including those of the income tax division of the department of corporations and taxation, and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit. The accounts of the last named department shall be subject at any time to such examination as the governor and council or the general court may order. Said department shall comply with any written regulations, consistent with law, relative to its duties made by the governor and council. This section shall not apply to the accounts of state officers which the director of accounts of the department of corporations and taxation is required by law to examine. The department of the state auditor shall keep no books or records except records of audits made by it, and its annual report shall relate only to such audits."

All requirements of the law relating to the duties and functions of the State Auditor have been carefully complied with for the fiscal year ended June 30, 1953.

Personnel: As of June 30, 1953, the permanent Civil Service staff of this office included eight World War I veterans, sixteen World War II veterans and ten non-veterans.

The following employees were promoted to the grade of Semi-Senior Accountant by competitive Civil Service examination:

Mr. William F. Hussey of Fall River
Mr. Sydney S. Kaplan of Dorchester
Mr. William H. Maus of Palmer
Mr. Leo Silk of Jamaica Plain

Mr. Ralph W. Emery of Newton, Semi-Senior Accountant, retired on June 30, 1953, after thirty-four years service with the Commonwealth.

The following permanent Civil Service appointments were made during the year:

Miss Jeanne M. Jagello of Dorchester to Junior Clerk-Typist
Miss Anna M. Reardon of Dorchester to Junior Clerk-Typist

Three special audits were required during the fiscal year:

Department of Public Utilities
Treasurer and Receiver-General
Worcester State Hospital

General: Individual copies of audit reports for all State activities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the Chairman of the Commission on Administration and Finance, the Comptroller and the State Librarian. Copies also have been forwarded to the administrative head of each institution or agency concerned, the chaplains, medical boards and trustees of the institutions, and the commissioner of each department.

Summary of Audits Completed: The following listed audits of State departments and institutions have been made since my last report to the legislature:

| SCHEDULE OF REGULAR AUDITS COMPLETED | | FISCAL YEAR 1952-1953 | |
|--|----------------|-----------------------|-----------|
| Department or Institution | From | To | Page No. |
| Governor and Council: | | | |
| Aeronautics Commission | Apr. 4, 1952 | Mar. 23, 1953 | 152 |
| Alcoholic Beverages Control Commission | Jan. 28, 1952 | Jan. 21, 1953 | 144 |
| Armory Commission | Sept. 17, 1951 | Sept. 24, 1952 | - |
| Art Commission for the Commonwealth | Apr. 29, 1952 | May 1, 1953 | - |
| Ballot Law Commission | Apr. 29, 1952 | May 5, 1953 | - |
| Civil Defense Agency | Apr. 8, 1952 | May 25, 1953 | 176 |
| Commission Against Discrimination | Apr. 25, 1952 | May 14, 1953 | - |
| Commission on Administration and Finance | July 1, 1951 | June 30, 1952 | 84 - 93 |
| Commission on Alcoholism | Feb. 21, 1952 | May 14, 1953 | - |
| Commission on Uniform State Laws | May 29, 1952 | May 5, 1953 | - |
| Commissioner of Veterans Services | Feb. 19, 1952 | Dec. 22, 1952 | 114 |
| Commissioners to Revise, Recodify, Consolidate and Arrange the General Laws | Mar. 11, 1952 | May 15, 1953 | - |
| Military Division of the Executive Department | Sept. 17, 1951 | Sept. 24, 1952 | 68 - 70 |
| Military Reservation Commission | Sept. 17, 1951 | Sept. 24, 1952 | - |
| Milk Regulation Board | Nov. 20, 1951 | Dec. 19, 1952 | - |
| Outdoor Advertising Authority | Feb. 12, 1952 | Jan. 5, 1953 | 115 - 116 |
| Port of Boston Authority | Aug. 13, 1951 | Sept. 8, 1952 | 41 - 48 |
| Public Bequest Commission | May 13, 1952 | May 1, 1953 | 168 |
| Soldiers' Home in Chelsea | Sept. 4, 1951 | July 24, 1952 | 29 - 32 |
| Soldiers' Home in Holyoke | May 12, 1952 | Mar. 19, 1953 | 150 - 151 |
| State Library | May 5, 1952 | May 1, 1953 | - |
| State Planning Board | Feb. 12, 1952 | May 26, 1953 | - |
| State Racing Commission | Dec. 3, 1951 | Dec. 2, 1952 | 108 - 109 |
| State Superintendent of Buildings | Jan. 2, 1952 | Sept. 12, 1952 | 48 - 49 |
| Secretary of the Commonwealth: | | | |
| General Department | Aug. 27, 1951 | July 22, 1952 | 28 - 29 |
| Commission on Interstate Co-operation | Apr. 24, 1952 | Aug. 25, 1952 | - |
| Treasurer and Receiver-General: | | | |
| General Department | Dec. 10, 1951 | Feb. 2, 1953 | 118 - 120 |
| Special Cash Audit | | July 7, 1952 | - |
| Emergency Finance Board | Jan. 2, 1952 | May 4, 1953 | 168 - 169 |
| Public Buildings Commission | Nov. 1, 1951 | Sept. 11, 1952 | - |
| State Board of Retirement | Jan. 1, 1952 | Dec. 31, 1952 | 178 - 181 |
| Attorney General | Jan. 14, 1952 | Jan. 21, 1953 | 117 - 118 |
| Department of Agriculture: | | | |
| General Department | Oct. 15, 1951 | Oct. 27, 1952 | 75 - 78 |
| Division of Livestock Disease Control | Nov. 19, 1951 | Dec. 5, 1952 | - |
| Division of Milk Control | Oct. 22, 1951 | Sept. 16, 1952 | 57 - 62 |
| Department of Banking and Insurance: | | | |
| Division of Banks | Jan. 22, 1952 | Sept. 12, 1952 | 49 - 50 |
| Division of Insurance | Apr. 24, 1952 | Apr. 9, 1953 | 158 |
| Division of Savings Bank Life Insurance | Jan. 2, 1952 | Dec. 15, 1952 | 114 |
| Supervisor of Loan Agencies | June 12, 1952 | Apr. 30, 1953 | - |
| Department of Civil Service and Registration: | | | |
| General Department | Apr. 4, 1952 | Sept. 2, 1952 | 34 |
| Architects, Board of Registration of | Sept. 11, 1951 | Sept. 2, 1952 | 36 |
| Barbers, Board of Registration of | Apr. 24, 1952 | Sept. 2, 1952 | 38 |
| Certified Public Accountants, Board of Registration of | June 16, 1952 | May 7, 1953 | 169 |
| Chiropody, Board of Registration in | June 4, 1952 | Sept. 2, 1952 | - |
| Dental Examiners, Board of Registration of | Apr. 3, 1952 | Sept. 2, 1952 | 37 |
| Electricians, State Examiners of | May 13, 1952 | Sept. 2, 1952 | 38 - 39 |
| Embalming and Funeral Directing, Board of Registration in | Apr. 14, 1952 | Sept. 2, 1952 | 37 - 38 |
| Hairdressers, Board of Registration of | Oct. 30, 1951 | Sept. 2, 1952 | 36 |
| Medicine, Board of Registration in | Nov. 9, 1951 | Sept. 2, 1952 | 34 - 36 |
| Nursing, Board of Registration in | Nov. 9, 1951 | Aug. 11, 1952 | 33 - 34 |
| Optometry, Board of Registration in | June 2, 1952 | Sept. 2, 1952 | - |
| Pharmacy, Board of Registration in | May 9, 1952 | Sept. 2, 1952 | 38 |

| Department or Institution | From | To | Page No. |
|---|----------------|----------------|-----------|
| Department of Civil Service and Registration (Continued): | | | |
| Plumbers, Board of State Examiners of | May 22, 1952 | Sept. 2, 1952 | 39 |
| Professional Engineers and Land Surveyors, | | | |
| Board of Registration of | June 5, 1952 | Sept. 2, 1952 | 36 |
| Veterinary Medicine, Board of Registration in | Mar. 31, 1952 | Sept. 2, 1952 | 37 |
| Department of Conservation: | | | |
| General Department | May 19, 1952 | Apr. 23, 1953 | 161 - 162 |
| Fisheries and Game, Division of | May 19, 1952 | Apr. 23, 1953 | 162 - 163 |
| Department of Corporations and Taxation: | | | |
| General Department | July 2, 1951 | July 1, 1952 | 10 - 25 |
| Appellate Tax Board | Mar. 11, 1952 | Jan. 5, 1953 | - |
| Division of Accounts | Apr. 28, 1952 | Apr. 7, 1953 | 158 |
| Department of Correction: | | | |
| General Department | Mar. 11, 1952 | Jan. 5, 1953 | 114 - 115 |
| Reformatory at Concord | Feb. 13, 1952 | Feb. 18, 1953 | 145 - 146 |
| Reformatory for Women | Apr. 22, 1952 | Apr. 28, 1953 | 165 - 166 |
| State Farm at Bridgewater | July 9, 1951 | July 7, 1952 | 27 |
| State Prison | May 15, 1952 | Mar. 30, 1953 | 148 - 150 |
| State Prison Colony | Feb. 6, 1952 | Mar. 19, 1953 | 151 |
| Department of Education: | | | |
| General Department | May 8, 1952 | May 25, 1953 | 177 - 178 |
| Bradford Durfee Technical Institute | Jan. 3, 1952 | Jan. 19, 1953 | 143 |
| Division of the Blind | Jan. 7, 1952 | Nov. 10, 1952 | 99 - 101 |
| Lowell Textile Institute | Aug. 7, 1951 | Aug. 4, 1952 | 32 - 33 |
| Lowell Textile Institute Research Foundation | Feb. 21, 1952 | Sept. 3, 1952 | 39 - 40 |
| Maritime Academy | May 19, 1952 | June 1, 1953 | 182 - 184 |
| New Bedford Textile Institute | Apr. 14, 1952 | Feb. 17, 1953 | 146 - 147 |
| School Buildings Assistance Commission | May 16, 1952 | May 22, 1953 | 167 - 168 |
| School of Art | May 27, 1952 | June 3, 1953 | 185 |
| State Teachers College at Bridgewater | Aug. 1, 1951 | Sept. 8, 1952 | - |
| State Teachers College at Fitchburg | May 8, 1952 | May 25, 1953 | 181 |
| State Teachers College at Framingham | Apr. 10, 1952 | May 18, 1953 | 176 - 177 |
| State Teachers College at Lowell | Oct. 8, 1951 | Feb. 9, 1953 | - |
| State Teachers College at North Adams | Mar. 24, 1952 | Apr. 6, 1953 | 157 |
| State Teachers College at Salem | Mar. 31, 1952 | Mar. 31, 1953 | 157 |
| State Teachers College at Westfield | Apr. 28, 1952 | May 4, 1953 | - |
| State Teachers College at Worcester | Feb. 7, 1952 | Apr. 28, 1953 | 163 |
| Teachers' Retirement Board | Jan. 1, 1952 | Dec. 31, 1952 | 118 |
| University of Massachusetts at Amherst | Oct. 16, 1951 | Aug. 28, 1952 | 101 - 105 |
| Industrial Accident Board | Apr. 24, 1952 | Jan. 12, 1953 | 140 - 143 |
| Department of Labor and Industries: | | | |
| General Department | Apr. 22, 1952 | June 1, 1953 | 183 |
| Division of Employment Security | May 9, 1952 | Apr. 21, 1953 | 158 - 161 |
| Labor Relations Commission | May 7, 1952 | May 21, 1953 | - |
| Legislature: | | | |
| Sergeant-at-Arms | Mar. 14, 1952 | May 18, 1953 | - |
| Special Commission on the Structure of the State Government | June 9, 1952 | May 6, 1953 | - |
| Department of Mental Health: | | | |
| General Department | Aug. 27, 1951 | Sept. 17, 1952 | 62 - 68 |
| Belchertown State School | Jan. 28, 1952 | Feb. 11, 1953 | 144 - 145 |
| Boston Psychopathic Hospital | Feb. 7, 1952 | Jan. 8, 1953 | 116 - 117 |
| Boston State Hospital | Mar. 26, 1952 | Mar. 18, 1953 | 147 - 148 |
| Danvers State Hospital | Dec. 6, 1951 | Oct. 6, 1952 | 74 |
| Foxborough State Hospital | Sept. 20, 1951 | Oct. 31, 1952 | 83 |
| Gardner State Hospital | Aug. 6, 1951 | Aug. 7, 1952 | 34 |
| Grafton State Hospital | Oct. 23, 1951 | Sept. 29, 1952 | 72 - 73 |
| Medfield State Hospital | Mar. 3, 1952 | Apr. 6, 1953 | 152 - 155 |
| Metropolitan State Hospital | Jan. 28, 1952 | Nov. 25, 1952 | 105 |
| Monson State Hospital | Aug. 20, 1951 | Dec. 17, 1952 | 109 - 110 |
| Myles Standish State School | Oct. 10, 1951 | Oct. 21, 1952 | 74 - 75 |
| Northampton State Hospital | July 9, 1951 | July 7, 1952 | 27 |
| Taunton State Hospital | Nov. 21, 1951 | Dec. 8, 1952 | 108 |
| Walter E. Fernald State School | Jan. 21, 1952 | June 1, 1953 | 135 - 186 |

| Department or Institution | From | To | Page No. |
|--|----------------|----------------|-----------|
| Department of Mental Health (Continued): | | | |
| Westborough State Hospital | Feb. 11, 1952 | Feb. 4, 1953 | 144 |
| Worcester State Hospital | Dec. 3, 1951 | Dec. 1, 1952 | 105 - 108 |
| Special Cash Audit | | Jan. 19, 1953 | - |
| Wrentham State School | Apr. 7, 1952 | June 1, 1953 | 184 |
| Metropolitan District Commission | Sept. 17, 1951 | Sept. 15, 1952 | 50 - 57 |
| Department of Public Health: | | | |
| General Department | Oct. 15, 1951 | Oct. 6, 1952 | 70 - 72 |
| Lakeville State Sanatorium | Sept. 12, 1951 | Sept. 29, 1952 | 73 |
| North Reading State Sanatorium | Sept. 20, 1951 | July 21, 1952 | 27 - 28 |
| Pondville State Hospital | Mar. 25, 1952 | June 3, 1953 | 184 - 185 |
| Rutland State Sanatorium | Apr. 15, 1952 | Mar. 31, 1953 | 155 - 157 |
| Westfield State Sanatorium | Mar. 31, 1952 | Mar. 26, 1953 | 155 |
| Department of Public Safety | Nov. 21, 1951 | Nov. 20, 1952 | 83 - 84 |
| Department of Public Utilities | Apr. 3, 1952 | May 4, 1953 | 167 |
| Special Cash Audit | | Oct. 8, 1952 | - |
| Department of Public Welfare: | | | |
| General Department | Mar. 24, 1952 | May 14, 1953 | 169 - 176 |
| Massachusetts Hospital School | May 26, 1952 | Apr. 9, 1953 | 158 |
| Tewksbury State Hospital and Infirmary | Oct. 17, 1951 | Nov. 10, 1952 | 93 - 99 |
| Department of Public Works: | | | |
| General Department | Apr. 28, 1952 | Feb. 2, 1953 | 120 - 140 |
| Registry of Motor Vehicles | July 2, 1951 | July 1, 1952 | 6 - 9 |
| State Airport Management Board | Apr. 14, 1952 | Dec. 12, 1952 | 110 - 114 |
| Supreme Judicial Court: | | | |
| Board of Bar Examiners | July 1, 1951 | June 30, 1952 | - |
| Clerk for the Commonwealth | Apr. 30, 1952 | May 11, 1953 | - |
| Reporter of Decisions | May 1, 1952 | May 12, 1953 | - |
| State Board of Probation | Feb. 25, 1952 | May 12, 1953 | - |
| Youth Service Board: | | | |
| General Department | Dec. 27, 1951 | Oct. 30, 1952 | 78 - 83 |
| Industrial School for Boys | May 21, 1952 | May 25, 1953 | 181 - 182 |
| Industrial School for Girls | June 9, 1952 | May 11, 1953 | 163 - 165 |
| Lyman School for Boys | July 9, 1951 | July 7, 1952 | 25 - 27 |

REGISTRY OF MOTOR VEHICLES

REPORT NO. 53-1

Refunds of Fees Account of Applications for Licenses to Operate Motor Vehicles:
Previous audit reports have stated:

"At present applicants file applications, together with the fee of \$6.00, with the examiner at the examination point. The \$6.00 covers the examination fee of \$2.00 and the license fee of \$4.00 covering two years. Should the applicant pass the examination, he receives a temporary license and a permanent license is mailed to him later. If the applicant fails in his examination, the license fee of \$4.00 is refunded to him in cash by the examiner. The same arrangement applies in re-examinations, except that the re-examination fee is \$1.00, so that the applicant deposits \$5.00 instead of \$6.00. It is again recommended that the Comptroller's Bureau review the routine of handling fees and provide some method that will eliminate the present practice of refunds being made by the examiners.

"No action has been taken on this recommendation, but a new position has been established and classified as 'Supervisor of Special Services - Driver Licenses' and the duties of the Supervisor will be to standardize methods and procedures at all of the examination places."

The situation remains practically the same excepting that the fee for the first examination has been increased from \$2.00 to \$3.00 and for subsequent examinations from \$1.00 to \$1.50. The fee for a license was increased from \$4.00 to \$5.00.

It was understood that the position of "Supervisor of Special Services - Drivers Licenses" has been filled but the incumbent was taken seriously ill before anything could be accomplished.

Deposit in Lieu of Insurance: Chapter 346 of the Acts of 1925 provided that in lieu of taking compulsory liability insurance an applicant for registration of a motor vehicle could deposit with the Department of Public Works cash or collateral with a market value of not less than \$5,000.00. The records of such deposits were kept in the Division of Highways. Chapter 571 of the Acts of 1949 changed this and provided that the deposit of \$5,000.00 is to be made with the State Treasurer. The only record the Registry keeps of such transactions is the certificate issued by State Treasurer to the applicant, which is attached to application for registration of a motor vehicle. It is again suggested that a register be kept showing such deposits.

Cash Overages and Shortages: The sum of \$2,000.00 is advanced to the Cashier from the Chief Accountant's advance to clear overages and shortages in income at the Main office and the several branch offices. On the date of audit, there was being carried in this account a net shortage of \$1,453.57, an analysis of which follows:

Status of Shortages Paid from Cashier's
\$2,000.00 Advance and Overages Paid into
the Advance as of July 1, 1952

| | | |
|---------------------------------------|------------|-------------------|
| Shortages Paid from Advance: | | |
| Branch Offices | \$2,273 53 | |
| Bank Deposit Shortage (Boston) | 16 00 | |
| Boston Office | 363 41 | |
| Counterfeit Money Made Good | 41 50 | |
| Bad Check | 1 00 | |
| Total Shortages Cleared | | \$2,695 44 |
| Less: | | |
| Overages Paid into Advance: | | |
| From Branch Offices | \$636 30 | |
| From Over and Short Account | 601 57 | |
| From Mail Room | 4 00 | |
| Total Overages | | 1,241 87 |
| Net Shortage (Should be Appropriated) | | <u>\$1,453 57</u> |

On the same date this fund of \$2,000.00 consisted of the following:

| | |
|---|-------------------|
| Cash on Hand | \$ 156 23 |
| Advances Paid to Tellers for Petty Cash | 390 20 |
| Net Shortage | <u>1,453 57</u> |
| | <u>\$2,000 00</u> |

It was noted that this account has not been cleared by legislative appropriation since 1939, and the foregoing shortages and overages represent the accumulation of more than thirteen years, during which period the receipts for Registry income approximated \$124,000,000.00. This amount included receipts in the main office which amounted to approximately \$48,900,000.00. It is, therefore, recommended that the necessary steps be instituted to clear this advance account.

\$180.00 Overage at Attleboro Branch: It was noted that the general cash book for the month of March 1952 included the following memorandum:

"Sometime in December 1951 the Attleboro Branch found that they were \$200.00 short. The investigator in charge went to the bank and for some reason told the bank people that the office was \$400.00 short. The bank stated that they had a \$400.00 overage for that day and handed the investigator \$400.00. This left the Branch with an overage of \$200.00. Sometime after the Branch was \$20.00 short which left an overage of \$180.00.

"When closing the branch a deposit of \$947.50 was made which included incorrectly the \$180.00 overage. The Treasurer requested that the \$180.00 be transferred from Motor Vehicle Fees account to Account Commonwealth of Massachusetts. The bank made this transfer on March 19, 1952.

"Check Number 839476 from the State Treasurer dated March 26, 1952 received on July 2, 1952 for \$180.00. Entered into the Over and Short account in records of \$2,000.00 Advance from Chief Accountant."

The foregoing item was entered in the Over and Short account on July 2, 1952.

This matter was discussed with the Chief Accountant and it was understood that he has repeatedly talked with the officials of the Attleboro branch about this matter, but with no results.

\$100.00 Overage - Counter Teller, Boston Office: When the cash of the Head Administrative Clerk in charge of the counter audit section was balanced on the date of audit, an amount of \$100.00, consisting of five twenty dollar bills was noted. It was understood that this money was apparently found on January 15, 1952 by a "spare teller" when she was cleaning out the safe below the cash drawer in the cage where she had been filling in during the rush period and who turned it over to the Head Administrative Clerk. No record could be found of this or any counter teller having been short \$100.00 during the past year. The Head Administrative Clerk was advised to turn the overage of \$100.00 over to the cashier who entered it in his "Over and Short" account under date of July 17, 1952.

Split Cash Sheets: All fees collected are recorded daily on serially numbered cash sheets, twenty-five numbers to a sheet. The serial numbers and the calendar year are printed on all cash sheets. These serial numbers are assigned to the various branches each year and thus provide the bookkeeping division with a control over income.

The term "split sheet" is applied to cash sheets not completed at the end of a business day. At the close of business on Friday of each week all cash sheets, both completed and incompleted, are supposed to be sent in to the Boston office by all branch offices and all income is to be deposited in the several banks. The incompleted numbers on each sheet are supposed to be stamped on blank sheets and used in order.

It was understood that sixteen branch offices and North Adams were using split sheets on the date of audit, while four were not following the prescribed method.

These branches were writing in the unused numbers, instead of using a number stamp, and in some cases writing in only the first and last number. One branch has been splitting passenger and truck sheets only, and this branch has been splitting sheets at the close of business on Thursday instead of Friday.

It is suggested that a uniform system of handling split sheets be put into effect at all branch offices immediately as the use of these blank cash sheets eliminates much of the effectiveness of the accounting control.

Reconciliation of Cash at Branch Offices: In this connection the previous audit report stated:

"Previous audit reports have included the following comment:

"The rules and regulations provide that the manager of each branch office is to personally balance the cash twice a month and file a report of such cash reconciliation with the Chief Accountant, however, this rule has in many cases not been adhered to. Apparently it has not been the practice to have a representative of the Boston office visit the branch offices and make an independent reconciliation of the cash. It is suggested that this be done periodically.

"It was learned that branch offices have been visited by representatives of the Boston office, who balanced cash at the time of these visits. Each office was visited at least once during the fiscal year just ended. A special report form used for reconciling cash was filed with the Chief Accountant in the Boston office. It was also noted that the manager of the branch offices had been instructed to balance cash twice monthly and had been provided with standard forms to be used for that purpose."

It was understood, however, that the branch offices have not been visited by a representative of the Boston office during the period under audit and it is, therefore, recommended that the practice of visiting the branch offices be resumed.

Referring to the reconciliation of cash at the branch offices by the managers of the respective branches, it was noted that this has not been done in the case of five branches. It was further noted that many of the others had not been balanced on a regular basis.

Cashier's Office - Rebate and Refund Advance Fund: Previous audit reports have stated:

"It is suggested that the Comptroller's Bureau should be contacted relative to the installation of a cash book in which to record the receipts and disbursements of the Fund.

"This has not yet been done and the suggestion is, therefore, repeated. About \$150,000.00 passed through this account during the previous calendar year, and it would appear that the amount is sufficiently large to warrant the use of a cash book in which to record advances received and total disbursements by schedule number, with monthly balancing. Inclusive check numbers should be entered as applying to each respective schedule and individual receipts or disbursements should also be entered. Such a cash book would bring all activities of this fund into a single record."

This suggestion not having been adopted, attention is again called to it.

1949 Number Plates Continued in Use for 1950: In this connection the previous audit report stated:

"Section 2 of Chapter 90 of the General Laws provides that the Registrar shall furnish two number plates to each person whose motor vehicle is registered under said Chapter 90.

Chapter 470 of the Acts of 1949 amended Section 2 of Chapter 90 of the General Laws and referring to number plates reads in part as follows:

'The number plates so furnished shall, except as provided by section nine, and except in case the registrar for any valid reason extends the time, be valid only for the year for which they are issued. If the registrar extends the time he may make rules and regulations requiring the display of visible evidence upon every motor vehicle that it has been registered and that the plates in use thereon are valid. Any plate becoming illegible because of construction defects shall be replaced by the registrar without cost.'

"Acting under this Chapter, the Registrar authorized the use of the 1949 number plates for the year of 1950 and provided a so-called sticker to be pasted on the windshield of the motor vehicle. Prior to the 1950 year there was one set of cash sheets for passenger cars and one set for trucks, the cash sheets contained 25 lines, each serially numbered and the number appearing against the name of the person registering the motor vehicle was the same as the number plate furnished him. For the 1950 year the serial numbers printed on the cash sheets are 'Financial Transaction' numbers and these numbers correspond with the serial numbers printed on the 'Stickers' which are furnished persons registering a motor vehicle in 1950 that had been registered in 1949. A person registering a motor vehicle for the first time in 1950 received two number plates and also a 'sticker'.

"The applications for registration of motor vehicles are filed in numerical order by plate number and the entries on the cash sheet being under 'Financial Transaction' numbers makes the auditing of these plates difficult."

In connection with the foregoing, it was noted that the Registrar authorized the use of 1951 plates in 1952 and the bookkeeping routine used in 1952 was the same as that used in 1950.

Record of No Fees Charged: It is suggested that a separate record be kept of all "no fee" items, including registrations, licenses, renewal licenses, etc. Possibly this could be accomplished by reserving a certain number of "Miscellaneous Cash Sheets" for this purpose.

Internal Check of Certain Fees: It is understood that applications received and processed by the Mail Section and by the Express Section are not checked for correctness of fees by the Checking Section. It is suggested that all applications received be reviewed with this in mind.

Cross References - Tractor Applications: It is suggested that every application for registration of a tractor-part of a semi-trailer unit, show the registration numbers of all semi-trailers with which it is to be used. It is further suggested that all semi-trailer applications show thereon tractor application numbers with which they are to be used because the fee for a tractor - part of semi-trailer units - is based, in part, on the weight of the heaviest semi-trailer with which it is to be used.

Validating Stamps on Applications: Several of the semi-trailer fleet applications examined, as well as other types of applications, did not show the validating stamp of the Registry clerk or teller. It is suggested that each application should bear such identification.

Erasures of Fees Entered on Applications: When an incorrect fee is noted, it should be crossed out and the correct fee indicated. Any corrections of fees should also be approved by a responsible employee.

DEPARTMENT OF CORPORATIONS AND TAXATION

GENERAL DEPARTMENT

REPORT NO. 53-2

The entire field which relates to financial transactions and exchange of funds between the various cities and towns and the Commonwealth should be subject to an immediate survey. In every instance, payment or the power to withhold payment is subject entirely to the jurisdiction of the Commonwealth, and some times, to the whim of the heads of the various agencies of the Commonwealth which thus deal with the cities and towns. Intelligent and well-planned administration of local finances is practically impossible under these present circumstances, since in almost every instance wherein funds are transferred between the Commonwealth and its municipalities, the State has been arbitrary and exact in demanding and taking such payments, while payments to the same cities and towns have been made at times that suited the needs of the Commonwealth. Such practices on the part of the Commonwealth have in many instances forced the local government to rely upon temporary borrowings to maintain their cash position, with consequent costs of interest charges added to the local tax rate.

While this report relates to an audit of the accounts of the Department of Corporations and Taxation, it is deemed also advisable at this time to refer to our most recent report of an audit of the accounts of the Commission on Administration and Finance. In that report it was demonstrated that on June 30, 1951, the State actually owed to the cities and towns sums in excess of \$19,000,000.00 representing payments due the local government in reimbursement for payments for public welfare, public health, education and veterans services.

While the general subject of tax distribution by the Department of Corporations and Taxation to the cities and towns is fully covered in the next comment in this report, a summary of the facts covering the distribution of this revenue during the current year adds emphasis to this particular comment.

Early this year, the Commissioner of Corporations and Taxation advised the cities and towns of the Commonwealth that they could expect to receive \$55,000,000.00 as their share of receipts from income taxes and business corporation taxes. This estimate was made by the Commissioner in full knowledge of the fact that distribution from the same sources for the preceding year amounted to more than \$68,000,000.00. At the time he must have been aware -- as every other citizen of the Commonwealth was -- that business for the year 1951 was much more prosperous than in the year 1950. Despite these facts, his estimate for the 1952 distribution was more than \$13,000,000.00 less than the amount actually distributed in the preceding year. The records show that by June 30, 1952, he had actually distributed \$62,668,848.54, and had an undistributed balance on that same date in excess of \$26,000,000.00. On November 20, 1952, in full knowledge of the fact that substantial funds belonging to the cities and towns were available for distribution, he forced the cities and towns to pay to the Commonwealth \$15,693,495.34, and then on December 5, 1952, following a statement by this department, he announced that he was then finally ready to distribute to the cities and towns a total of \$15,514,867.63. Therefore, based on the Commissioner's actual distribution of funds, his estimate of distributions to the cities and towns for the year 1952 amounted to \$23,183,716.17 less than the amount actually distributed. The results of this serious miscalculation are reflected in higher tax rates in every city and town in the Commonwealth. Even this distribution to the cities and towns should have been higher because by arbitrary action \$4,584,381.28 was transferred from the Agency Fund to the General Fund of the Commonwealth representing for the most part the 1953 costs of the Commonwealth.

To sum the entire situation up, while on the one hand the Commonwealth has owed the cities and towns reimbursements totaling \$19,000,000.00 representing funds already expended by them, simultaneously, the Commonwealth has extracted from the Agency Fund, without the knowledge of the cities and towns, nearly \$5,000,000.00 in estimated future costs of the Commonwealth.

Tax Distribution to Cities and Towns: Early in each calendar year the Commissioner of the Department of Corporations and Taxation is required to give to each city and town of the Commonwealth an estimate of the amount that each can expect that year from distribution of revenue from income and corporation taxes.

This estimate is included on the so-called "Cherry Sheets" issued by the department. The revenue thus accrued is distributed between the Commonwealth and the

cities and towns on the following basis:

- 1) Income Taxes - With the exception of the \$1,500,000.00 retained by the Commonwealth as Public Service Tax Receipts, the increases in tax rates authorized by Chapter 800 of the Acts of 1950, and the cost of administration of the Income Tax Department, all funds received are distributed to the various cities and towns.
- 2) Corporation Taxes - This income is divided roughly - 1/6 to the Commonwealth, and 5/6 is distributed to the cities and towns.

The importance of an accurate estimate of this distribution to the cities and towns cannot be overstated, since the estimate is a prime factor in determining the tax rates of 351 cities and towns. An underestimate results in excessive tax rate, and while an overestimate may result in a lower rate for the particular year, it will balloon the rate for the following year and thereby result in needless and damaging fluctuations in tax rates.

In Audit Report No. 2595 issued by this department on July 14, 1949, attention was called to the fact that the estimate which the Commissioner had given to the cities and towns of the 1949 distribution was approximately 30% lower than the revenue that would actually accrue. Our estimate proved correct and a full distribution was later made to the cities and towns of the Commonwealth, too late however to affect the local tax rates.

Further similar and substantial variations have been noted between the Commissioner's estimate and the amount actually distributed to the cities and towns. In 1949 the distribution finally exceeded the Commissioner's estimate by \$27,719,322.72, while in 1950 the Commissioner's estimate exceeded the distribution by \$13,144,494.98. In 1951 the Commissioner's estimate was less than the distribution by \$13,144,494.98 and again in 1952 the Commissioner's estimate was under the amount distributed by \$7,668,848.54 and on June 30, 1952 there was an additional undistributed balance of \$26,106,405.93.

The following schedule shows the wide variations between the Commissioner's estimates and the actual distributions for the past few years:

| 1949 | | | |
|--|------------------------|--------------------------------|------------------------|
| | Income Tax | Business Corporation Tax | Total |
| Commissioner's Estimates | \$29,040,919 00 | \$26,000,000 00 | \$55,040,919 00 |
| Actual Payments to Cities and Towns | 39,919,078 07 | 42,841,163 65 | 82,760,241 72 |
| Underestimate | <u>\$10,878,159 07</u> | <u>\$16,841,163 65</u> | <u>\$27,719,322 72</u> |
| Per cent of Payment to Estimate | <u>137.4%</u> | <u>164.7%</u> | <u>150.3%</u> |
| 1950 | | | |
| | Income Tax | Business Corporation Tax | Total |
| Commissioner's Estimates | \$35,000,000 00 | \$37,000,000 00 | \$72,000,000 00 |
| Actual Payments to Cities and Towns | 31,995,153 71 | 26,860,351 31 | 58,855,505 02 |
| Overestimate | <u>\$3,004,846 29</u> | <u>\$10,139,648 69</u> | <u>\$13,144,494 98</u> |
| Per cent of Payment to Estimate | <u>91.4%</u> | <u>72.5%</u> | <u>81.7%</u> |

| <u>1951</u> | | | |
|---|------------------------|---------------------------------|------------------------|
| | <u>Income Tax</u> | <u>Business Corporation Tax</u> | <u>Total</u> |
| Commissioner's Estimates | \$30,002,012 52 | \$25,000,000 00 | \$55,002,012 52 |
| Actual Payments to Cities and Towns | <u>39,006,858 81</u> | <u>29,139,648 69</u> | <u>68,146,507 50</u> |
| Underestimate | <u>\$9,004,846 29</u> | <u>\$4,139,648 69</u> | <u>\$13,144,494 98</u> |
| Per cent of Payments to Estimate | <u>130.0%</u> | <u>116.5%</u> | <u>123.8%</u> |
| <u>1952</u> | | | |
| | <u>Income Tax</u> | <u>Business Corporation Tax</u> | <u>Total</u> |
| Commissioner's Estimates | \$30,000,000 00 | \$25,000,000 00 | \$55,000,000 00 |
| Distributed to June 30, 1952 | \$32,668,848 54 | \$30,000,000 00 | \$62,668,848 54 |
| Balance Not Distributed June 30, 1952 | <u>7,943,665 49</u> | <u>18,162,740 44</u> | <u>26,106,405 93</u> |
| Total | <u>\$40,612,514 03</u> | <u>\$48,162,740 44</u> | <u>\$88,775,254 47</u> |
| Per cent of Available Funds to Estimate | <u>135.3%</u> | <u>181.2%</u> | <u>161.4%</u> |

In connection with the foregoing, attention is directed to Section 25A of Chapter 58 of the Tercentenary Edition of the General Laws, which requires that the Commissioner of the Department of Corporations and Taxation give estimates of the amounts to be distributed to the cities and towns from the two major revenue sources - Income taxes and Corporations. This estimate is used by the communities as one of the criteria in the establishment of their local tax rate, and so it becomes perfectly obvious that unless it is substantially accurate the tax rates of the various cities and towns throughout the Commonwealth are adversely affected. This arrangement then can and has resulted in severe economic handicaps insofar as the actual taxpayers are concerned. As a matter of record, it is mentioned that the tax rate in practically all cities and towns was advanced during this past year. In further connection with this subject, it was specifically noted that on November 20, 1952 the Commissioner assessed upon the various cities and towns within the Commonwealth, the sum of \$15,693,495.34. On this same date, no distribution of income and corporation taxes was made despite the fact that there was available in these two tax accounts, on that date, a sum in excess of the amount that he collected from the cities and towns.

The present discretionary powers that apparently rest with the Commissioner of Corporations and Taxation, both in the matter of his first estimate of receipts from income and corporation taxes and in the distribution of funds from these sources to the cities and towns, should be removed by the Legislature.

It is the opinion of this department that the Commissioner's estimates to the cities and towns in the first instance should be as high as is practicable. While it may be pointed out that a high estimate might fall short of actual receipts, in such an event it is the further opinion of this department that in such instances the distribution still should be made on the basis of the Commissioner's original estimate from the General Funds of the Commonwealth, and the amount of the overestimate would then be deducted from the next year's distribution. Under present circumstances, it is entirely impossible for intelligent and well-planned administration of local affairs. Under this proposal, the cities and towns would receive a firm estimate, one which they could rely upon in fixing local tax rates each year.

It is the further opinion of this department that the present law should be amended to require that the Commissioner of Corporations shall make a monthly distribution to the cities and towns, and that he should be prevented by legislation from retaining

in the Agency Funds at any one time any more than is necessary to provide normal and reasonable reserves.

Old Age Assistance Payment: Attention is directed to the following item contained in Chapter 310 of the Acts of 1952:

"3601-30 -- Notwithstanding the provisions of section ten of chapter sixty-four B of the General Laws regulating payments from receipts under said chapter to cities and towns, heretofore made without appropriation, a sum not exceeding one million nine hundred and fifty thousand dollars is hereby appropriated from the Old Age Assistance Fund for such payments, and the total amounts to be paid by the state treasurer on or before November twentieth, nineteen hundred and fifty-two, from the sum herein appropriated, shall be not less than one million dollars \$1,950,000.00"

Despite the mandatory provisions of this section, the million dollars ordered to be paid to the cities and towns on November 20, 1952 was not paid by the Commissioner.

Collections of Delinquent Taxes: Several instances were noted in connection with this examination where fees for collection of taxes appeared to be exorbitant in comparison with the amount of the tax due. In this connection, the following specific instances are shown:

| <u>Amount of Tax</u> | <u>Amount of Fee</u> |
|----------------------|----------------------|
| \$13 26 | \$13 00 |
| 4 48 | 3 00 |
| 2 68 | 2 00 |
| 6 24 | 4 10 |
| 2 10 | 2 00 |
| 6 71 | 6 13 |
| 8 83 | 7 96 |
| 7 96 | 7 30 |

Attention is also called to the fact that in the foregoing instances, interest together with "demand" and "warrant" charges are also collected.

While it is true that this department must have efficient delinquent collection routines in order to safeguard processing of unpaid items, it actually does appear that these collection policies should be completely reviewed. It is entirely reasonable that consideration should be given to the establishment of the fees which would compare with amounts owed. Generally taxpayers are not delinquent through choice and therefore charges such as those indicated are increased and not always justifiable burdens.

Tax Abatement, Refunds, Etc.: The records of this department indicate that several refunds were made to corporations involving in certain instances sums in excess of \$100,000.00. Because of the fact that the detail of these refunds is not auditable by this department, no verification could be made of these items.

Interest Paid and Received: At the present time interest is collected on overdue accounts at the rate of 6% per annum, and is paid on amounts refunded at the same rate. Inasmuch as the prevailing bank interest rate is substantially lower than this amount, it is suggested that steps be taken to reduce this rate to one that is more consistent with that which obtains in industry. With the present rates remaining in effect, it is conceivable that concerns might deliberately overpay their taxes in substantial sums knowing that at some later date they would receive proper refunds together with interest in amounts which could not be realized on ordinary investments.

During the current audit period several large abatements were made of corporate taxes. For purposes of illustration, the following examples are shown of the original taxes together with the respective interest abatements:

| <u>Tax Years</u> | <u>Tax Abated</u> | <u>Interest</u> | <u>Total</u> |
|------------------|-------------------|-----------------|--------------|
| 1943) | | | |
| 1944) | | | |
| 1945) | | | |
| 1946) | \$85,408 05 | \$27,628 26 | \$113,036 31 |
| 1947) | | | |
| 1948) | | | |
| 1949) | | | |
| 1942 | 75,515 08 | 40,413 51 | 115,928 59 |

In connection with this matter attention is further directed to the fact that there was paid out by this department for interest on miscellaneous taxes a total of \$190,062.78 for the twelve months ended November 30, 1951. This amount exceeded the collections of interest made for miscellaneous taxes in arrears in the amount of \$46,422.17.

Accounts Receivable - Unpaid Taxes: An analysis of the accounts receivable balances of the department show the following taxes due the Commonwealth as of November 30, 1951:

| <u>Name</u> | <u>Amount</u> |
|--|-----------------------|
| Income Taxes | \$1,372,415 66 |
| Domestic Corporations | 3,807,303 60 |
| Foreign Corporations | 226,075 60 |
| Inheritance | 570,781 07 |
| Estate | 135 03 |
| Gasoline | 1,201,715 05 |
| Diesel Engine Fuel | 5,287 88 |
| Motor Carriers Tax | 221 44 |
| Insurance Premiums | 14,344 25 |
| Marine Profits, Insurance | 30 |
| Savings Bank Deposits | 3,988 41 |
| National Bank Tax | 1,519 54 |
| Trust Company | 2,020 35 |
| Finance Company | 42 04 |
| Gas and Electric Light Company | 165,281 86 |
| Railroad Company | 284,794 17 |
| Gas Transmission Tax | 100 00 |
| Telephone and Telegraph Company | 368 82 |
| Water Company | 64 78 |
| Club Alcoholic Beverage | 12,862 27 |
| Excise on Alcoholic Beverages | 360,025 98 |
| Cigarette Excise | 320,968 92 |
| Cigarette License - Retailers | 322 00 |
| Cigarette Licenses - Unclassified Importers | 1 00 |
| Cigarette Licenses - Vending Machine Operators | 100 00 |
| Cigarette Licenses - Vending Machine Plates | 86 00 |
| Care and Custody Deposits | 77 50 |
| Old Age Excise | 232,609 37 |
| Motor Vehicle Excise | 103,328 59 |
| Abandoned Property | 3,571 51 |
| | <u>\$6,271,104 95</u> |

Tax Balances in Arrears - Cigarette Excise: It was noted that one business organization is recorded as owing \$38,998.83 as of November 30, 1951, and on June 30, 1952 this same company owed \$59,025.58, an increase of \$20,126.75. It is suggested that this amount should be collected in accordance with the procedures provided by statute.

Meal Taxes Uncollected: Included with the balances in June 30, 1952 in arrears in the meal tax section is one in the amount of \$22,592.95 due from a restaurant and night club. This balance has been constantly increasing and it is suggested that these taxes too be collected by simple compliance with the statute.

It was further noted that a night club with a tax balance unpaid of \$10,835.80 is reported to be in bankruptcy.

Alcoholic Beverages Excise: The records indicate a balance of \$179,238.57 as being due from a manufacturer for excise taxes. Of this balance only \$20,000.00 will probably be recovered from the bonding company, and the Commonwealth will undoubtedly lose approximately \$159,000.00, in this case alone.

It was further noted that a concern dealing in beer and wine, which it is understood is in financial difficulties, was in arrears in the amount of \$42,815.90 in excise tax payments as of June 30, 1952.

Another concern was on record as having owed \$23,591.05 as of November 30, 1951. This same company had also received abatements of \$7,344.22 on 1949 business and \$21,435.17 on 1951 and 1952 business.

It was also noted that a second concern owes \$26,017.86 as of June 30, 1952, and this amount also appears doubtful of collection. It is understood that this balance represents an accumulation of unpaid taxes from October 1951 through April 1952.

Railroad Company Taxes: There was owed for railroad Company taxes \$284,794.17 as of November 30, 1951. Additional assessments since that date of \$157,756.13 and collections of \$170,256.13 bring the total balance to \$272,294.17. It was noted that this total included balances unpaid for the years 1936, 1937, and 1939 to 1951 inclusive. This case is now in litigation as the result of appeals from decisions of the Appellate Tax Board.

Collection Division - Warrants Collected: For the twelve month period ended November 30, 1951, collections from these sources totaling \$780,359.59 were made on the basis of 10,292 cases as follows:

| | |
|----------|---------------------|
| Taxes | \$757,010 53 |
| Interest | 17,504 86 |
| Cost | 5,844 20 |
| | <u>\$780,359 59</u> |

Abatements - Miscellaneous Taxes: Attention again is called to the fact that for each of the last seven tax years which were audited, abatements of miscellaneous taxes totaled in excess of \$5,000,000.00. In this connection the following is shown:

| <u>Twelve Months Ended</u> | <u>Assessments</u> | <u>Abatements</u> | <u>Per Cent</u> |
|----------------------------|--------------------|-------------------|-----------------|
| November 30, 1945 | \$ 97,685,257 80 | \$ 5,571,129 81 | 5.7 |
| 1946 | 135,261,675 82 | 6,495,446 50 | 4.7 |
| 1947 | 140,326,744 14 | 5,077,973 03 | 3.6 |
| 1948 | 169,050,753 77 | 6,407,324 23 | 3.8 |
| 1949 | 172,239,096 62 | 9,907,379 11 | 5.8 |
| 1950 | 176,692,273 68 | 10,576,836 40 | 5.9 |
| 1951 | 199,619,208 49 | 7,693,067 75 | 3.9 |

Because of the fact that statutes specifically preclude any examination of the individual abatement applications, the totals in the foregoing statement have been accepted without verification for this purpose.

It is understood that these abatements have been allowed through several channels, e.g., the Appellate Tax Board, the various courts, the Commissioner of Corporations and Taxation and/or at the suggestion of the Directors of any one of the several divisions within the department.

It is also believed that a large percentage of these items have been occasioned by the system which permits arbitrary assessments under certain conditions. In this connection it can only be presumed since post audit is forbidden, that the several safeguards normally provided by a good system of internal control, have been properly exercised.

Rents Paid: The following represents the lengths of the leases and the annual rents for the premises used by this department in Boston:

| <u>Location</u> | <u>Term</u> | <u>Expiration Date</u> | <u>Annual Rental</u> |
|----------------------------------|-------------|------------------------|----------------------|
| 40 Court Street | 3 Years | June 30, 1954 | \$100,705 00 |
| 40 Court Street, Option to Renew | 2 Years | June 30, 1956 | 112,789 60 |
| 42 Court Street Basement | 5 Years | June 30, 1956 | 3,000 00 |
| Bowdoin Square Garage | 5 Years | Sept. 1, 1955 | 16,400 00 |

Checks Voided: It was noted that bank checks drawn and later voided because of error had not been retained for audit purposes. It is suggested that all checks be available until they have been audited. It was also noted that certain checks that had not been prenumbered were used to replace voided refund checks. It is suggested that only prenumbered checks be used henceforth.

Income Tax - Accounts with Credit Balances: It was noted that there were included with the accounts several with credit balances. Those concerned should be located and the necessary adjustments made.

Income Tax Assessments: Prior to 1946 assessment warrants were prepared in the Assessing Section of the Income Tax Division and sent to the Collector's Office, together with the individual taxpayers' bills. The bills were entered on the ledger cards and then mailed by the Collector's Office. Beginning with the 1946 income tax year, the preparation of warrants in the Assessing Section was discontinued except for additional assessments on unpaid accounts prior to 1946, and the assessments were established in the Collector's Office (subject to verification) from the taxpayers' return coupons in those cases where the taxpayers enclosed full or partial payments with the tax return.

Under the present arrangement, the coupons are processed so that currency may be extracted, are sorted, and then sent to the nineteen ledger clerks, who list on warrants the amounts set up as assessments, which are subject to late verification. These warrants are entered in so-called master books, and in subcontrol ledgers. In order to establish an approximate record of accounts receivable in the department financial report as of June 30, the income tax and corporation tax assessments are anticipated and estimated amounts are entered in the control ledgers. These figures are accordingly adjusted at the time of the certification of the total assessments of the business corporation excise taxes in September of each year. At the time of the establishment of the income tax assessment subject to final verification, on September 1st of each year, these taxes are also properly adjusted.

Chapter 816 of the Acts of 1950 provided that income taxes and business corporation taxes would be payable in their entirety at the time of the filing of the tax returns, March 1 for income taxes and April 10 for corporation taxes. This chapter was, however, amended by Chapter 750 of the Acts of 1951 which provided that individual income tax returns become due and payable in full on April 15th for the tax years through 1953.

In cases where tax returns are received without remittances, the returns are segregated and sent to the Assessing Division which subsequently and prior to June 15 sends assessment warrants on such cases to the Collector's Office, together with any additional assessments resulting from reviews of the respective tax returns.

It was understood that the reason for the change in the system was occasioned by the inability of the Assessing Section to get the assessment warrants and the taxpayers' bills to the Collector's Office by September 1, the date the bills were apparently required to be mailed.

However, regardless of the reasons, it is fundamental from the point of view of adequate internal control that the assessments should not be established in the same section where they will ultimately be collected, because under the present arrangement it is impossible to get a satisfactory independent verification of the assessments as a basis of audit.

Annual Transfer of \$1,500,000.00 from Income Tax Collections to General Revenue: It was noted that beginning with the 1935 year and through the 1951 year the sum of \$1,500,000.00 of income tax collections were paid over to the State Treasurer from Public Service Tax receipts and was credited to the general revenue of the Commonwealth. This transfer of tax collections to general revenue was made under the provisions of Chapters 307 and 357 of the Acts of 1933.

In this connection Section 9 of Chapter 307 of the Acts of 1933 discontinued the income tax exemptions provided in the last clause of Section 1 (b) of Chapter 62 of the

Tercentenary Edition of the General Laws, which reads in part as follows:

"... and except such foreign corporations as are subject to a tax upon their franchises payable to the commonwealth under section fifty-eight of chapter sixty-three."

It was further understood that the amount of \$1,500,000.00 was based on the amount of taxes paid prior to the 1933 year by a certain foreign telephone corporation whose dividends became taxable on the passage of Chapter 307 of the Acts of 1933, which act was passed after the foreign telephone company in question discontinued the payment of a franchise tax.

Annual Closing of Taxpayers' Ledgers: It had been the practice to take annual trial balances of the taxpayers' ledgers as of close of business November 30, but beginning with June 30, 1952 the annual trial balances will be taken twice a year as of November 30, and again as of the close of business June 30.

Trial Balances of Accounts Receivable, November 30, 1951 - Income Taxes: It was noted that the balance in the control account, the subcontrol accounts and the nineteen master books were in agreement as of November 30, 1951 and of the nineteen taxpayers' ledgers, eleven were in agreement with the master book for the 1951 tax year. Regarding the taxpayers' ledgers for the tax years prior to the 1951 tax year, one ledger was in complete agreement and eighteen were not in agreement until November 00, 1951, as follows:

| | |
|-----------|----------------------------|
| 1 Ledger | 2 Tax Years Out of Balance |
| 1 Ledger | 3 Tax Years Out of Balance |
| 2 Ledgers | 4 Tax Years Out of Balance |
| 2 Ledgers | 5 Tax Years Out of Balance |
| 6 Ledgers | 6 Tax Years Out of Balance |
| 3 Ledgers | 7 Tax Years Out of Balance |
| 3 Ledgers | 8 Tax Years Out of Balance |

On November 30, 1951, however, adjustments were effected bringing these ledgers into reconciliation with the control records. At the time the net variance of \$4,230.79 was adjusted with the written approval of the Commissioner of Corporations and Taxation.

Trial Balances of Accounts Receivable - November 30, 1951 - Miscellaneous Taxes: The balances as of November 30, 1951 reflected by the control accounts were in agreement with the balances shown by the master books for all types of taxes. The balances shown by the taxpayers' ledgers as of November 30, 1951 were in agreement with the balances reflected by the master books except in the cases of Domestic Corporation Taxes and Inheritance Taxes.

Verification of Outstanding Accounts Receivable: A total of 1,766 verification notices were sent out on balances outstanding November 30, 1951 and remaining unpaid July 1, 1952. Of this total, 1,416 notices were for income tax accounts and 350 for miscellaneous tax accounts. A total of 315 notices were returned by the Post Office as being unable to deliver.

Distribution of Collections of Business Corporation Excise Taxes: The distribution of gross collections of business corporation taxes was not checked. In this connection the previous audit report stated:

"The present routine used in computing the distribution of the revenue to the various statutory funds is cumbersome and time consuming. It could be reorganized with a considerable saving of time. Important information and data concerning these distributions are kept on work sheets.

"It is suggested that the following permanent records be set up and maintained according to the accepted standards of accounting practice and procedure:

- "1. Accounts reflecting the collection of taxes levied on:
- a) Corporation excise
 - b) Taxable income of corporations

The apportionment of the revenues collected from corporate excess taxes to the various statutory funds differs, by law, from the amounts allocable to these funds and others from the revenue collected on taxable income. Therefore, this information should be recorded in separate and distinct accounts.

- "2. A systematic and chronological record of revenue distributed to the various statutory funds, the transfers in and out of these funds, and adjustments made to correct the respective balances. The importance of these accounts lies in the principle of internal check. They could then be readily reconciled with those of the Comptroller.

- "3. Journals reflecting the detailed data supporting the entries in the above accounts.
- Just as important as the recording of gross collections is the recording of refunds of collections and payments of tax abatements now summarized on work sheets. A journal, similar to the cash journal now used for gross collections, should be used to record refunds of collections and payments of abatements. This record should include references to checks issued in payment and abatement certificates, etc., authorizing such payments.

"Referring to the reorganization of the routine of computing distribution of collected revenue to statutory funds, it is also suggested that a chart listing factors representing decimally the proportional part allocable to various funds be used along with a calculating machine. Such a chart, devised and used by the auditors in checking these distributions is available to the department."

Inasmuch as the foregoing suggestions have not been acted upon, it is again recommended that they be considered.

Accounts with Attorney General for Collection: Because the Director of Taxes in this Department now has authority, in all types of taxes except Inheritance Taxes, to issue demands and warrants for the collection of taxes, the only types of taxes now with the Attorney General for collection are Inheritance Tax cases.

The records in this office showed that as of November 30, 1951 there were 236 Inheritance Tax cases totaling \$52,910.54 with the Attorney General for collection. An effort was made to check these cases with the records in the office of the Attorney General, and 113 accounts could not be located. A list of such cases was given to the Collector's office with the suggestion that they be resubmitted.

An analysis of the cases shown by the records in the Collector's office as being with the Attorney General follows:

| <u>Year</u> | <u>Number of Cases</u> | <u>Balances</u> |
|-------------|------------------------|-----------------|
| 1947 | 1 | \$ 211 11 |
| 1946 | 1 | 71 67 |
| 1945 | 6 | 530 44 |
| 1944 | 10 | 2,240 65 |
| 1943 | 20 | 2,411 19 |
| 1942 | 16 | 2,224 97 |
| 1941 | 17 | 2,394 66 |
| 1940 | 13 | 3,797 79 |
| 1939 | 11 | 4,729 08 |
| 1938 | 11 | 1,805 37 |
| 1937 | 8 | 3,786 98 |

| | | |
|------|------------|--------------------|
| 1936 | 6 | \$ 1,511 10 |
| 1935 | 6 | 1,007 57 |
| 1934 | 8 | 1,050 95 |
| 1933 | 12 | 3,274 46 |
| 1932 | 10 | 2,230 82 |
| 1931 | 14 | 3,355 20 |
| 1930 | 13 | 5,656 93 |
| 1929 | 8 | 1,408 29 |
| 1928 | 3 | 1,948 70 |
| 1927 | 10 | 1,592 90 |
| 1926 | 10 | 1,446 12 |
| 1925 | 9 | 2,896 95 |
| 1924 | 5 | 411 47 |
| 1923 | 5 | 544 39 |
| 1921 | 2 | 50 23 |
| 1912 | 1 | 320 55 |
| | <u>236</u> | <u>\$52,910 54</u> |

Inheritance Taxes - Active Accounts Receivable: The active accounts receivable were analyzed as of November 30, 1951. This analysis follows:

| Year | Debits | | Credits | |
|----------------|-----------------|---------------------|-----------------|--------------------|
| | Number of Cases | Balance | Number of Cases | Balance |
| 1951 | 387 | \$197,396 45 | 20 | \$ 2,038 02 |
| 1950 | 211 | 105,364 07 | 26 | 7,305 63 |
| 1949 | 168 | 86,849 71 | 10 | 16,074 16 |
| 1948 | 120 | 64,817 94 | 3 | 269 74 |
| 1947 | 104 | 27,897 35 | 1 | 7,740 30 |
| 1946 | 60 | 18,508 11 | - | - |
| 1945 | 46 | 19,751 25 | 1 | 9,660 11 |
| 1944 | 35 | 6,533 63 | - | - |
| 1943 | 38 | 8,450 73 | 1 | 600 00 |
| 1942 | 32 | 4,962 72 | - | - |
| 1941 | 29 | 6,560 09 | - | - |
| 1940 | 22 | 5,690 64 | 1 | 5 50 |
| 1939 | 33 | 10,779 09 | - | - |
| 1938 and Older | 171 | 52,089 01 | 1 | 18 27 |
| | <u>1,456</u> | <u>\$615,650 79</u> | <u>64</u> | <u>\$43,711 73</u> |

It is suggested that these accounts be reviewed and those on which the department has exhausted all means of collection be referred to the Attorney General.

Vendors' Invoices for Repairs Incomplete: In this connection the previous audit report stated:

"An examination of the charges to the expense a/c of the Income Tax Division for the 1950 fiscal period indicated that approximately \$7,500.00 was spent for electrical repairs and \$3,500.00 for carpenter work repairs. In connection with the above repair bills, it was noted that the charges for materials were itemized but the charges for labor were recorded only in terms of total hours, hourly wage rates, and total labor charges. It would appear that the dates and the number of hours of work performed on the respective dates should be submitted by the vendor in support of the labor charge on all invoices for repair work."

"This matter has been brought to the attention of the division, and it is understood that beginning August 1, 1951 all invoices for repairs will be supported by a detailed statement of its labor charge."

In connection with the foregoing, it was noted that the changes indicated were actually effected as of August 1, 1951.

Reimbursing Cities and Towns for Loss of Taxes on Land Used for State Institutions and Certain Other State Activities: The valuations of land and the amount reimbursed to cities and towns for the calendar year 1951 follows:

Contingent Liability on Cities and Towns for Loss of Taxes on Land Used for
Public Purposes and Certain Other State Activities for Calendar
Year 1951

| <u>City or Town</u> | <u>Valuation of Land</u> | <u>Reimbursement Under Provision Ch. 490, 1951</u> |
|---|------------------------------|--|
| Acton - Massachusetts Reformatory | \$ 33,700 00 | \$ 1,578 84 |
| Adams - State Forest | 4,600 00 | 215 51 |
| Agawam - John C. Robinson State Forest | 154,900 00 | 7,257 06 |
| Andover - State Forest | 26,400 00 | 1,236 84 |
| Ashburnham: | | |
| Gardner State Hospital | \$ 1,400 00 | |
| Fish Hatchery, etc. | 3,600 00 | |
| State Forest | 28,700 00 | |
| Ashby: | 33,700 00 | 1,578 84 |
| Game Preserve | \$ 300 00 | |
| State Forest | 15,000 00 | |
| Ashfield - D. A. R. State Forest | 15,300 00 | 716 80 |
| Athol - State Forest | 1,400 00 | 65 59 |
| Attleboro - State Forest | 1,500 00 | 70 27 |
| Ayer - Fish Hatchery | 400 00 | 18 74 |
| Barnstable - State Forest | 3,900 00 | 182 71 |
| Barre - State Forest | 500 00 | 23 42 |
| Becket - State Forest | 4,500 00 | 210 82 |
| Bedford - Airport | 25,900 00 | 1,213 41 |
| Belchertown - Belchertown State School | 26,800 00 | 1,255 58 |
| Belmont - Metropolitan State Hospital | 67,900 00 | 3,181 11 |
| Berkley - State Forest | 17,600 00 | 824 56 |
| Berlin - Lyman School for Boys | 100 00 | 4 68 |
| Billerica - State Forest | 6,300 00 | 295 15 |
| Blandford - State Forest | 8,900 00 | 416 96 |
| Bolton - Industrial School for Girls | 20,000 00 | 937 00 |
| Boston: | 12,400 00 | 580 94 |
| State Prison | \$ 884,200 00 | |
| Boston State Hospital | 2,775,800 00 | |
| Psychopathic Hospital | 94,700 00 | |
| Bourne: | 3,754,700 00 | 175,907 69 |
| Mass. Military Reservation | \$71,400 00 | |
| State Forest | 26,400 00 | |
| Boxford: | 97,800 00 | 4,581 93 |
| Game Preserve | \$16,300 00 | |
| State Forest | 8,400 00 | |
| Brewster: | 24,700 00 | 1,157 19 |
| State Forest | \$ 1,100 00 | |
| R. C. Nickerson State Forest | 58,100 00 | |
| Bridgewater: | 59,200 00 | 2,773 52 |
| State Farm | \$219,200 00 | |
| State Forest | 600 00 | |
| Brimfield - State Forest | 219,800 00 | 10,297 63 |
| Buckland - State Forest | 25,900 00 | 1,213 41 |
| Canton - Mass. Hospital School | 1,600 00 | 74 96 |
| | 52,400 00 | 2,454 94 |

| | | | |
|--|------------------|-------------|-----------|
| Carlisle - State Forest | | \$ 2,900 00 | \$ 135 86 |
| Carver - State Forest | | 13,800 00 | 646 53 |
| Charlemont - State Forest | | 16,400 00 | 768 34 |
| Chelsea - Soldiers' Home | | 473,000 00 | 22,160 04 |
| Chester - State Forest | | 10,900 00 | 510 66 |
| Chesterfield - Knightsville Flood Control Project | | 4,800 00 | 224 88 |
| Clarksburg - State Forest | | 19,600 00 | 918 26 |
| Colrain - State Forest | | 6,400 00 | 299 84 |
| Concord: | | | |
| Massachusetts Reformatory | \$104,600 00 | | |
| Airport | <u>11,000 00</u> | 115,600 00 | 5,415 86 |
| Conway - State Forest | | 18,900 00 | 885 46 |
| Dalton - Wahconah Falls Park | | 1,900 00 | 89 01 |
| Danvers - Danvers State Hospital | | 165,100 00 | 7,734 93 |
| Dennis - State Forest | | 400 00 | 18 74 |
| Douglas - State Forest | | 21,300 00 | 997 90 |
| Dover - Medfield State Hospital | | 12,700 00 | 595 00 |
| Dracut - State Forest | | 17,400 00 | 815 19 |
| Duxbury - Standish Monument Reservation | | 9,700 00 | 454 44 |
| Eastham - Wild Life Sanctuary | | 400 00 | 18 74 |
| Easthampton - Northampton State Hospital | | 100 00 | 4 68 |
| Edgartown - State Forest | | 14,800 00 | 693 37 |
| Erving - State Forest | | 32,100 00 | 1,503 88 |
| Fall River - State Forest | | 20,000 00 | 937 00 |
| Falmouth: | | | |
| Mass. Military Reservation | \$8,800 00 | | |
| Camp Edwards | 2,500 00 | | |
| State Forest | <u>200 00</u> | 11,500 00 | 538 78 |
| Fitchburg - State Forest | | 1,200 00 | 56 22 |
| Florida - State Forest | | 50,200 00 | 2,351 87 |
| Foxborough: | | | |
| State Hospital | \$71,400 00 | | |
| State Forest | <u>6,300 00</u> | 77,700 00 | 3,640 24 |
| Framingham - Reformatory for Women | | 112,000 00 | 5,247 20 |
| Franklin - State Forest | | 8,900 00 | 416 96 |
| Freetown - State Forest | | 38,000 00 | 1,780 30 |
| Gardner: | | | |
| State Hospital | \$42,000 00 | | |
| State Forest | <u>300 00</u> | 42,300 00 | 1,981 75 |
| Georgetown - State Forest | | 9,600 00 | 449 76 |
| Goshen - D. A. R. State Forest | | 53,200 00 | 2,492 42 |
| Gosnold - Bird Sanctuary | | 11,600 00 | 543 46 |
| Grafton - State Hospital | | 40,700 00 | 1,906 79 |
| Granville - State Forest | | 16,000 00 | 749 60 |
| Groton - State Forest | | 48,200 00 | 2,258 17 |
| Hadley - State Forest | | 100 00 | 4 68 |
| Hamilton - Joseph Allen Skinner State Park | | 19,400 00 | 908 89 |
| Hancock - Bradley W. Palmer Reservation | | 116,100 00 | 5,439 28 |
| State Forest | \$29,900 00 | | |
| Game Preserve | 4,400 00 | | |
| Linden Bates Memorial State Park | <u>3,900 00</u> | 38,200 00 | 1,789 67 |
| Hawley - State Forest | | 54,900 00 | 2,572 06 |
| Heath - State Forest | | 7,900 00 | 370 11 |
| Hinsdale - Wahconah Falls Park | | 500 00 | 23 42 |
| Holden: | | | |
| Rutland State Sanatorium | \$100 00 | | |
| State Forest | <u>500 00</u> | 600 00 | 28 11 |
| Hopkinton - State Forest | | 4,500 00 | 210 82 |

| | | | | |
|--|----|-------------|------------|----------|
| Hubbardston - State Forest | \$ | 13,500 00 | \$ | 632 47 |
| Hudson - State Forest | | 1,100 00 | | 51 53 |
| Huntington: | | | | |
| State Forest | \$ | 4,300 00 | | |
| Knightsville Flood Control Project | | 67,700 00 | 72,000 00 | 3,373 20 |
| Ipswich: | | | | |
| State Forest | \$ | 91,600 00 | | |
| Bradley W. Palmer Reservation | | 19,400 00 | 111,000 00 | 5,200 35 |
| Kingston - State Forest | | | 1,400 00 | 65 59 |
| Lakeville - State Sanatorium | | | 39,800 00 | 1,864 63 |
| Lancaster - Industrial School for Girls | | \$32,600 00 | | |
| Lanesborough - Industrial School for Boys | | 32,100 00 | 64,700 00 | 3,031 19 |
| State Forest | | | 2,900 00 | 135 86 |
| Lee - State Forest | | | 18,200 00 | 852 67 |
| Leicester - State Forest | | | 200 00 | 9 37 |
| Lenox - State Forest | | | 6,000 00 | 281 10 |
| Leominster - State Forest | | | 11,700 00 | 548 14 |
| Leverett - State Forest | | | 500 00 | 23 42 |
| Lexington - Metropolitan State Hospital | | | 27,300 00 | 1,279 00 |
| Leyden - State Forest | | | 1,800 00 | 84 33 |
| Lincoln - Airport | | | 11,300 00 | 529 40 |
| Lowell - State Forest | | | 5,000 00 | 234 25 |
| Ludlow - State Forest | | | 500 00 | 23 42 |
| Lunenburg - State Forest | | | 700 00 | 32 79 |
| Lynnfield - State Forest | | | 900 00 | 42 16 |
| Marlborough - State Forest | | | 1,800 00 | 84 33 |
| Marshfield - Fish and Game Reservation | | | 4,800 00 | 224 88 |
| Mashpee - Mass. Military Reservation | | | 11,600 00 | 543 46 |
| Mattapoisett - Fish Hatchery and Game Reserve | | | 1,900 00 | 89 02 |
| Medfield: | | | | |
| State Hospital | \$ | 98,800 00 | | |
| State Forest | | 400 00 | 99,200 00 | 4,647 52 |
| Middleborough - Lakeville State Sanatorium | | \$5,800 00 | | |
| State Forest | | 400 00 | 6,200 00 | 290 47 |
| Middlefield - State Forest | | | 6,300 00 | 295 16 |
| Middleton: | | | | |
| Danvers State Hospital | \$ | 40,700 00 | | |
| State Forest | | 300 00 | 41,000 00 | 1,920 85 |
| Monroe - State Forest | | | 19,900 00 | 932 32 |
| Monson: | | | | |
| State Hospital | \$ | 35,300 00 | | |
| State Forest | | 2,000 00 | 37,300 00 | 1,747 51 |
| Montague: | | | | |
| Fish Hatchery | \$ | 4,200 00 | | |
| State Forest | | 6,600 00 | 10,800 00 | 505 98 |
| Monterey - State Forest | | | 55,000 00 | 2,576 75 |
| Montgomery - Grace A. Robson Wild Life Sanctuary | | | 800 00 | 37 48 |
| Mount Washington - State Forest | | | 5,300 00 | 248 31 |
| Nahant - Henry Cabot Lodge Bird Sanctuary | | | 1,900 00 | 89 02 |
| Nantucket - State Forest | | | 1,000 00 | 46 85 |
| Natick - Military Purposes | | | 24,800 00 | 1,161 88 |
| New Marlborough - State Forest | | | 7,800 00 | 365 43 |
| New Salem - State Forest | | | 3,400 00 | 159 29 |

Norfolk:

| | | | |
|---------------------------------|------------------|---------------|--------------|
| State Prison Colony | \$143,100 00 | | |
| Pondville State Hospital | 53,600 00 | | |
| Wrentham State School | <u>20,700 00</u> | \$ 217,400 00 | \$ 10,185 19 |
| North Adams - State Forest | | 5,100 00 | 238 94 |
| North Andover - State Forest | | 40,100 00 | 1,878 69 |
| North Brookfield - State Forest | | 700 00 | 32 80 |

North Reading:

| | | | |
|------------------------------|-----------------|------------|-----------|
| State Sanatorium | \$21,600 00 | | |
| State Forest | <u>4,100 00</u> | 25,700 00 | 1,204 05 |
| Northampton - State Hospital | | 336,000 00 | 15,741 60 |

Northborough - Westborough

| | | | |
|----------------------------|--|-----------|----------|
| State Hospital | | 39,600 00 | 1,855 26 |
| Northbridge - State Forest | | 2,600 00 | 121 81 |
| Northfield - State Forest | | 10,100 00 | 473 19 |
| Oakham - State Forest | | 9,000 00 | 421 65 |
| Orange - State Forest | | 8,600 00 | 402 91 |
| Otis - State Forest | | 23,500 00 | 1,100 98 |
| Oxford - State Forest | | 300 00 | 14 06 |
| Palmer - Fish and Game | | 8,800 00 | 412 28 |
| Pelham - State Forest | | 200 00 | 9 37 |
| Peru - State Forest | | 22,500 00 | 1,054 13 |
| Petersham - State Forest | | 17,700 00 | 829 25 |

Phillipston:

| | | | |
|----------------------------|-----------------|-----------|----------|
| W. E. Fernald State School | \$2,100 00 | | |
| State Forest | <u>1,200 00</u> | 3,300 00 | 154 61 |
| Pittsfield - State Forest | | 12,000 00 | 562 20 |
| Plainfield - State Forest | | 3,500 00 | 163 98 |
| Plainville - State Forest | | 500 00 | 23 43 |
| Plymouth - State Forest | | 89,600 00 | 4,197 76 |

Princeton:

| | | | |
|----------------|-----------------|-----------|--------|
| State Forest | \$11,200 00 | | |
| Bird Sanctuary | <u>3,300 00</u> | 14,500 00 | 679 33 |

Raynham:

| | | | |
|---------------------------|---------------|-----------|----------|
| Taunton State Hospital | \$51,900 00 | | |
| State Forest | <u>200 00</u> | 52,100 00 | 2,440 89 |
| Rehoboth - State Forest | | 1,800 00 | 84 33 |
| Rockport - Bird Sanctuary | | 2,900 00 | 135 87 |
| Rowe - State Forest | | 2,600 00 | 121 81 |
| Rowley - State Forest | | 7,300 00 | 342 01 |

Royalston:

| | | | |
|----------------------------------|------------------|------------|----------|
| W. E. Fernald State School | \$ 1,000 00 | | |
| State Forest | 10,900 00 | | |
| Birch Hill Flood Control Project | <u>98,700 00</u> | 110,600 00 | 5,181 61 |

Rutland:

| | | | |
|--------------------------|-----------------|-----------|----------|
| Rutland State Sanatorium | \$30,100 00 | | |
| State Forest | <u>8,600 00</u> | 38,700 00 | 1,813 10 |

Salisbury:

| | | | |
|---------------------------------|-------------------|------------|-----------|
| Fish Hatchery and Game Preserve | \$ 3,800 00 | | |
| Salisbury Beach Reservation | <u>387,100 00</u> | 390,900 00 | 18,313 67 |
| Sandisfield - State Forest | | 37,500 00 | 1,756 88 |

Sandwich:

| | | | |
|----------------------------|------------------|-----------|----------|
| Fish and Game Reservation | \$ 9,200 00 | | |
| State Forest | 23,900 00 | | |
| Mass. Military Reservation | <u>47,700 00</u> | 80,800 00 | 3,785 48 |

Savoy - State Forest

| | | | |
|--------------------------|--|------------|----------|
| Sheffield - State Forest | | 154,500 00 | 7,238 33 |
| Shelburne - State Forest | | 2,300 00 | 107 76 |

Sherborn - Reformatory

| | | | |
|-----------|--|----------|--------|
| for Women | | 400 00 | 18 74 |
| | | 7,800 00 | 365 43 |

Shirley:

| | | | |
|----------------------------|---------------|-----------|----------|
| Industrial School for Boys | \$22,700 00 | | |
| State Forest | <u>200 00</u> | 22,900 00 | 1,072 87 |

| | | | |
|----------------------------------|-------------------|------------|-----------|
| Shrewsbury: | | | |
| Grafton State Hospital | \$12,900 00 | | |
| Worcester State Hospital | <u>14,700 00</u> | \$ | 27,600 00 |
| Shutesbury - State Forest | | | 1,293 06 |
| South Hardwick - Joseph Allen | | | 520 04 |
| Skinner State Park | | | 182 72 |
| Spencer - State Forest | | | 487 24 |
| Sterling - State Forest | | | 42 17 |
| Stockbridge - State Forest | | | 18 74 |
| Stow - State Forest | | | 4 69 |
| Sunderland - State Fish and Game | | | 131 18 |
| State Fish and Game | \$9,800 00 | | |
| State Forest | <u>6,200 00</u> | | 749 60 |
| Taunton - Taunton State Hospital | | | 3,687 10 |
| Templeton: | | | |
| W. E. Fernald State School | \$ 39,600 00 | | |
| State Forest | 10,400 00 | | |
| Birch Hill Flood Control Project | <u>384,500 00</u> | 434,500 00 | 20,356 33 |
| Tewksbury - State Hospital | | | |
| and Infirmary | | 183,300 00 | 8,587 61 |
| Tolland - State Forest | | 33,200 00 | 1,555 42 |
| Topsfield: | | | |
| State Forest | \$ 12,200 00 | | |
| Bradley W. Palmer Reservation | <u>116,100 00</u> | 128,300 00 | 6,010 86 |
| Townsend - State Forest | | 33,100 00 | 1,550 74 |
| Tyngsborough - State Forest | | 3,200 00 | 149 92 |
| Tyringham - State Forest | | 3,100 00 | 145 24 |
| Upton - State Forest | | 23,000 00 | 1,077 55 |
| Wales - State Forest | | 10,600 00 | 496 61 |
| Walpole: | | | |
| Pondville State Hospital | \$ 5,300 00 | | |
| State Prison Colony | <u>10,800 00</u> | 16,100 00 | 754 29 |
| Waltham: | | | |
| State School | \$218,300 00 | | |
| Metropolitan State Hospital | <u>119,400 00</u> | 337,700 00 | 15,821 25 |
| Warwick - State Forest | | 150,600 00 | 7,055 61 |
| Washington - State Forest | | 174,200 00 | 8,161 27 |
| Wendell - State Forest | | 49,800 00 | 2,333 13 |
| West Bridgewater - State Forest | | 3,400 00 | 159 29 |
| West Brookfield - State Forest | | 2,600 00 | 121 81 |
| West Springfield: | | | |
| Westfield State Sanatorium | \$ 1,300 00 | | |
| John C. Robinson State Park | <u>38,700 00</u> | 40,000 00 | 1,874 00 |
| West Tisbury - State Forest | | 17,400 00 | 815 19 |
| Westborough: | | | |
| Grafton State Hospital | \$21,000 00 | | |
| Westborough State Hospital | 78,100 00 | | |
| Lyman School for Boys | <u>39,800 00</u> | 138,900 00 | 6,507 47 |
| Westfield: | | | |
| Westfield State Sanatorium | \$21,300 00 | | |
| John C. Robinson State Park | 2,000 00 | | |
| Grace A. Robinson Wild Life | | | |
| Sanctuary | <u>200 00</u> | 23,500 00 | 1,100 98 |
| Westminster: | | | |
| Gardner State Hospital | \$40,300 00 | | |
| State Forest | <u>11,900 00</u> | 52,200 00 | 2,445 57 |
| Wilbraham - State Game Farm | | 6,300 00 | 295 16 |
| Williamsburg: | | | |
| Northampton State Hospital | \$1,400 00 | | |
| State Forest | <u>700 00</u> | 2,100 00 | 98 38 |
| Wilmington - North Reading | | | |
| State Sanatorium | | 1,000 00 | 46 85 |
| Winchendon: | | | |
| State Forest | \$ 4,400 00 | | |
| Birch Hill Flood Control Project | <u>125,200 00</u> | 129,600 00 | 6,071 76 |

| | | | |
|--------------------------------------|------------------|------------------------|---------------------|
| Windsor: | | | |
| State Forest | \$13,700 00 | | |
| Wahconah Falls Park | <u>1,900 00</u> | \$ 15,600 00 | \$ 730 86 |
| Worcester - Worcester State Hospital | | 640,400 00 | 30,002 74 |
| Worthington - State Forest | | 4,000 00 | 187 40 |
| Wrentham: | | | |
| Wrentham State School | \$56,500 00 | | |
| State Forest | <u>15,500 00</u> | 72,000 00 | 3,373 20 |
| Yarmouth - State Forest | | 1,300 00 | 60 90 |
| | | <u>\$11,862,900 00</u> | <u>\$555,776 83</u> |

Account No. 1205-01 - Appropriations:

| | |
|-------------------|---------------------|
| Chapter 490, 1951 | \$456,000 00 |
| Chapter 806, 1951 | <u>100,000 00</u> |
| | <u>\$556,000 00</u> |

| | |
|--------------------------------|---------------------|
| Expenditures | \$555,776 83 |
| Balance Reverted June 30, 1952 | <u>223 17</u> |
| | <u>\$556,000 00</u> |

Departmental Procedures - Organization: It is suggested that steps be taken to make a systematic survey of all departmental, administrative and office procedures, etc., organization, etc. The present system has been in effect for many years and is suffering acutely for the lack of modern practices, advanced methods, etc. There is no question that the incorporation of this suggestion, which might possibly involve a complete revision of all departmental procedures, would develop immeasurable advantages to all presently concerned.

LYMAN SCHOOL FOR BOYS

REPORT NO. 53-4

Farm Reports: The previous audit report commented in some detail regarding the 1949 farm report, with particular emphasis on the disagreement between the farm costs as shown on the farm report and the farm costs as shown on the financial report. Attention was likewise called to the fact that the 1950 farm report had not been prepared on the date of audit, July 9, 1951.

On the date of the current audit the farm report of the 1950 year still remained unprepared and in addition the 1951 farm report was also not available for examination. The delay in the preparation of these reports was again attributed by the Superintendent to the lack of trained personnel. It is, therefore, suggested that the Comptroller's Bureau be requested to furnish this institution with the necessary instructions and assistance to complete these two important reports.

Materials and Supplies Adjustments: The number of adjustments and their values were considerably increased during the current audit period when compared with those noted at the time of the previous audit period. For example, the June 1952 net shortage adjustment of \$725.34 comprised overages totaling \$771.30 and shortages of \$1,496.64 and it was also noted that these adjustments were made without any official approval even though there were five individual items amounting to more than \$100.00.

In this connection attention is called to the Comptroller's Bureau regulations regarding approval of adjustments:

"After the entry in the adjustment book has been prepared and approved by the steward, the superintendent must approve it before the correcting entries can be made in the stock ledger. An adjustment of a single item amounting to \$100.00 or more must be approved by both the superintendent and the department. The original and duplicate copies will bear these approvals."

Materials and Supplies - Coke Balance: This account indicated a balance of 114,700 lbs. valued at \$880.24 on June 30, 1952. In this connection attention is called to the fact that the physical inventory taken in conjunction with this examination revealed absolutely no inventory on hand. It was also learned that this situation has

prevailed for a lengthy period of time. Coke is now purchased directly for certain cottages and is delivered to the point where it is to be used, by the vendor. These deliveries are entered in the stock ledger and are charged immediately to the particular cottage where it is to be used.

It is suggested that the balances as appearing on the records be adjusted after proper approvals have been obtained.

Special Appropriation - Old Balance: Included in the balances of special appropriations was one for Improvements to Old Willow Cottage which had shown no activity for the past two years, with a balance of \$32,396.07. Inasmuch as it is understood that this amount will not be used, it is recommended that steps be taken to dispose of the account.

Charge Made for Printing of Pay Roll Checks by Bank: It was noted that a small charge was made by the bank for imprinting pay roll checks. In this connection the following exchange of correspondence between the institution and the Comptroller's Bureau is shown:

May 23, 1952

Mr. Fred A. Moncewicz, Comptroller
Comptroller's Bureau
State House
Boston, 33, Massachusetts

Dear Sir:

The First National Bank of Westboro in the past has supplied us blank checks without charge.

Mr. -----, President, has informed us that in the future no checks would be supplied without charge. There is at present a deduction of \$4.17 showing on our regular bank statement for a book of checks that we recently received.

We must have pay roll checks by the end of July. Will you please advise us as to the procedure to follow in securing them, also what is to be done about the \$4.17 charge at present on our bank statement.

Very truly yours,

/s/ Charles A. DuBois

Superintendent

May 28, 1952

Mr. Charles A. DuBois, Superintendent
Lyman School for Boys
Westboro, Massachusetts

Dear Sir:

We are in receipt of your letter of May 23, 1952 stating that Mr. -----, President of the First National Bank of Westboro has informed you that in the future no checks will be supplied to the institution without charge, and that there is at present a deduction of \$4.17 showing on your bank statement for a book of checks which you recently received.

The state does not and, insofar as I know, never has paid any bank in the Commonwealth for supplying the state or any of its agencies with checks and, I may also add, for service charges of any kind. We would suggest that this information be conveyed to Mr. -----, President of the Bank.

If my memory is correct, I believe that the Westboro State Hospital also banks at the First National Bank of Westboro, and possibly the Grafton State Hospital, and if this is so it would seem to me that the First National Bank should consider all of these accounts as deposits of the Commonwealth of Massachusetts.

I will be very glad to talk with Mr. ----- if there are any further questions.

The selection of a bank is an administrative matter of your institution and the Youth Service Board, therefore other banking arrangements can be made if necessary, but the fact still remains that the Commonwealth does not pay for the supplying of checks or any service charge.

Very truly yours,

FRED A. MONCEWICZ
Comptroller

Inmates' Fund - Stolen Money: On the date of audit it was noted that there were two inmates' accounts, each in the amount of \$29.00, on which the notation appeared - "stolen money". It was understood that the boys concerned escaped in June 1949. When they were returned by the police the money was found on their persons. They acknowledged having stolen it, but could give no further information. Inasmuch as the two inmates have been discharged from the School for more than year, it is recommended that this matter be brought to the attention of the Youth Service Board for disposition.

Overcharge - Employee's Room Rent: It was noted than an employee had been overcharged for rent in the amount of \$4.82 and represents \$.11 per week for the period from September 18, 1951 to July 6, 1952. This matter was brought to the attention of the bookkeeper who indicated that it would be adjusted on a subsequent pay roll.

STATE FARM AT BRIDGEWATER

REPORT NO. 53-5

Farm Profits: The farm profit for the 1951 farm year was \$25,098.94 as compared with a profit of \$5,279.46 reported in 1950. This improvement in the farm financial condition was explained as being largely due to good growing conditions in 1951.

Patient's War Savings Bond: The previous audit report referred to the possible disposition of a \$25.00 War Savings Bond which belonged to a deceased patient. It is now suggested that it be referred to the Attorney General of the Commonwealth as correspondence on hand indicates that the Federal Government will not cash the bond unless certain legal formalities are complied with.

NORTHAMPTON STATE HOSPITAL

REPORT NO. 53-6

Materials and Supplies: The test inventory taken on July 23, 1952 in connection with this audit indicated overages of \$140.69 and shortages of \$67.19 on total materials of \$60,421.67. During the audit period inventory adjustments totaled \$1,722.02 on materials issued which aggregated \$586,512.37. The reasons for the necessity of the foregoing adjustments were indicated as follows:

| | |
|-----------------|-------------------|
| Expansion | \$ 941 24 |
| Spoilage | 58 55 |
| Shrinkage | 431 71 |
| Clerical Errors | 290 52 |
| | <u>\$1,722 02</u> |

NORTH READING STATE SANATORIUM

REPORT NO. 53-8

New Houses: Attention is directed to the fact that this institution has completed the construction of a new single house intended for the occupancy of the superintendent, and a new duplex house intended for occupancy by two staff physicians. In this

connection it was noted that there was expended by the institution for furniture and furnishings the sum of \$8,115.00 and for household supplies an additional amount of approximately \$1,300.00.

After this furniture, etc. had been purchased, the Commission on Administration and Finance determined that the superintendent should be charged for its use at the rate of \$35.00 per month, and the two physicians should be charged individually at the rate of \$24.00 per month. At this point, the superintendent and one physician declined to pay for use of the furniture and elected to use their personally owned property in its stead. Because of this apparent impasse, this new furniture, which is not adaptable for use elsewhere in the institution, is presently stored in the basement of one of the hospital buildings, where it will undoubtedly deteriorate in value and appearance unless it is put to practical use within a short time.

It does seem that this situation could have been much more clearly anticipated so that the Commonwealth would not have had to expend nearly \$10,000.00 unnecessarily.

Garage Rents: It was noted that the comment in the previous audit report with respect to garage rents has been complied with, and now rents are being charged for the use of all garages.

SECRETARY OF THE COMMONWEALTH

GENERAL DEPARTMENT

REPORT NO. 53-9

Archives Division - General: A list of outstanding accounts receivable was compiled as of the date of audit from detailed records furnished by the division. It subsequently developed that several of these accounts had been paid prior to that date. In order to eliminate a recurrence of this situation, it is recommended that a control accounts receivable account be established. Monthly trial balances of unpaid items in the sales books should be regularly taken and reconciled with the control account.

As of the date of audit the unpaid accounts totaled \$297.25. This amount included \$64.25 which represents the value of finished work that has not yet been delivered and is at least six months old. As many of these orders will probably not be called for, it is suggested that this division collect all fees in advance.

Division of Public Documents - Obsolete Books: The inventory on the date of audit in this division includes books that are from 30 to 50 years old and were indicated in the stock books as having a value of approximately \$41,500.00. The records further indicate that since October 1935 the total sales of these books totaled only \$697.95, an average of approximately \$41.00 per year. In view of the decreased demand for these books and the urgent need for storage space for new books, it is suggested that the necessary steps be taken to dispose of these books in the manner provided by statute.

Division of Public Documents - Free Issues: During the audit period books having a potential sales value of \$14,239.65 were issued at no charge by this division to authorized City, State and Federal agencies upon their official written request.

The recommendation in the previous audit report that all books having a sales value which are issued gratis to authorized agencies be recorded on serially numbered forms and filed in chronological order, has been partly complied with as the forms being used have not been serially numbered in advance.

Division of Public Documents - Physical Inventories of Books on Hand: It was noted that no complete inventory was taken by the personnel of this division during the audit period. The Accounting Manual, issued by the Comptroller's Bureau, requires that state institutions take an inventory of their active stock ledger items at least four times a year and of their inactive items at least three times a year. It would appear to be consistent with good accounting practice for this division, which has books with a value of approximately \$200,000.00 to take test physical inventories at regular intervals during the year.

Division of Public Documents - Bookkeeping Records: It was noted that the practice of using a Raymond Trial Balance Book in connection with the listing of monthly issues and balances of the stock book ledger accounts which had been discontinued has been restored as a part of the accounting system in conformance with a suggestion in the previous audit report.

Vital Statistics: Previous audit reports have questioned the propriety of permitting a private person who is not a state employee to have access to certain vital statistics records for the purpose of furnishing certain statistical data to the National Office of Vital Statistics. This information should be prepared by state employees and all money received from the U. S. Government should be recorded in the name of the Commonwealth and deposited with the State Treasurer.

At the written request of the Secretary of the Commonwealth, the Attorney General rendered an opinion on these questions on December 8, 1949, which reads in part as follows:

"It follows, therefore, that to permit a private contractor to examine the record of all births in the Commonwealth which are under the supervision of the State Secretary, would involve a violation of G. L. (Ter. Ed.) c. 46, sec. 2A. Hence, the answer to the first question proposed is in the negative as to your entering into the contract in your individual capacity and in the affirmative as to entering into the contract in your official capacity. This would seem to eliminate the necessity of answering the second question.

"As to your third question, it is my opinion that all moneys received from the Federal Government, through the National Office of Vital Statistics, for the work performed in your department under the contract made by you in your official capacity as State Secretary should be deposited as a whole with the Treasurer and Receiver-General of the Commonwealth, and payments made therefrom only in the ordinary and usual course of transacting public business.

"The effect of this opinion, however, is not to deprive the National Office of Vital Statistics of valuable statistical and public health reports. It would appear that ample authority is conferred by G. L. (Ter. Ed.) c. 262, sec. 36 and 37, upon the State Secretary acting in his official capacity to furnish the required information at the rate paid by the Federal Government.

Very truly yours,

s/ Francis E. Kelly
Attorney General"

Despite the clarity of this ruling the work performed for the United States Health Service is still apparently continuing to be done by persons not employed by the Commonwealth.

As of August 4, 1952 the balance in this account was represented as follows:

| | |
|---|-------------------|
| Cash in Bank | \$1,134 64 |
| Due from National Office of Vital Statistics | 986 37 |
| Total | <u>\$2,121 01</u> |

SOLDIERS' HOME IN MASSACHUSETTS

REPORT NO. 53-10

Due from Federal Government: Under Public Law 823 of the 81st Congress, \$500.00 per patient per year is to be made available until June 30, 1956 toward the support of patients at this institution. This money is recorded as income to the Commonwealth's Veterans' Service Fund when notification to that effect is received from the State Treasurer, to whom all checks are sent directly by the United States Treasury. On the date of this audit there was due to the Commonwealth \$79,196.38 representing the amount billed the United States Government for the board and care of patients for the period from April 1, 1952 to June 30, 1952. This money will be credited as income of the 1953 fiscal year as it is the practice not to record these items as income until the money is actually received by the State Treasurer.

Accounts Receivable: Under authority granted by Chapters 501 and 687 of the Acts of 1951 and Chapter 296 of the Acts of 1952, the Trustees are authorized to enter into certain contracts with hospital service corporations and with insurance companies and associations furnishing hospital services, with respect to hospital services for qualified veterans. During the period under audit there was charged to those organizations \$99,587.43 of which \$21,419.50 still remained unpaid on July 24, 1952.

In connection with this income it was noted that no accounts receivable ledger is being maintained. It was further noted that it is the practice to record this income on the books only when collections are made. Because of this practice, expenditures are now recorded on the encumbrance basis and income on a cash basis. This is naturally not consistent with good accounting practice as it results in an inaccurate indication of any fiscal year's operations. It is therefore recommended that the necessary accounts receivable control accounts be installed immediately so that income may be recorded therein currently.

Rent Deductions - Employees: It was noted that rent charges totaling \$16,928.40 were deducted from employees' salaries during the audit period. It was, however, impossible to verify these deductions because no Room Occupancy records were maintained by the housekeepers of the various buildings where employees' rooms are available.

A review of the weekly rates charged employees indicated 18 rates to be in effect ranging from \$.85 to \$4.95 weekly. It is therefore recommended that the Comptroller's Bureau be requested to furnish a system that will be helpful in determining the potential rent due from each rental unit. It is also recommended that a survey be made of the present weekly rent charges as it is possible that many of the varying rates may be eliminated, which will assist in further controlling this income.

Materials and Supplies Not in Stock Ledger: The physical inventory of Materials and Supplies taken in connection with this audit indicated that sheets, pillow cases, towels, bedspreads and woolen blankets with a book value of \$2,698.62 were on hand in the Linen Room. These items were, however, not shown in the stock ledger as part of the Materials and Supplies balance. It was learned that it was the practice to treat these items as expenses when they are purchased, consequently they are not included with the stock ledger balances. As this practice is inconsistent with that generally followed by State institutions it is suggested that it be changed forthwith.

It was also noted that sheets, towels, pillow cases and blankets purchased from the Special Appropriation for hospital furnishings, with a book value of \$6,217.86 were on hand on the date of audit but were also not controlled through the stock ledger. It is understood that these items were purchased for the new hospital.

Materials and Supplies - Trial Balance Book: It was noted that a Trial Balance Book which lists each month the units and the values of issues and balances of the accounts in the stock ledger was not being maintained. Inasmuch as this record is an integral part of the accounting system, it is suggested that it be maintained in accordance with the Comptroller's Bureau Accounting Manual.

Canteen: The canteen at this institution is privately owned and operated. No rent is paid for the space occupied by this concession and no audit was made of its records. In this connection, it was noted that a monthly donation is being made by the canteen operator to the "Donation Account" of the institution.

In view of the substantial investment made by the Commonwealth in equipping the canteen in the new hospital, it is again suggested that study be made to determine whether this new canteen shall be privately operated or whether all profits accruing shall be expended for the benefit of patients.

Sales of Bones and Grease: It was noted that letter bids were invited for the sale of bones and grease and that of four concerns contacted, only one returned a bid. It was understood from the institution authorities that this same company has been the only bidder for the past four years.

Patients' Funds - Receipts and Disbursements: It was noted that it is the practice for the treasurer's office to issue a triplicate form of receipt to patients for cash and valuables which they leave for safekeeping upon their admittance. However, in the case of subsequent receipts for or from patients, no receipt is issued to the patients. It is suggested that proper receipts be issued for all monies received

for or from patients.

It was further noted that Patients' Fund checks occasionally are made payable to third persons for the account of patients upon oral requests from the respective patients. It is suggested that these checks be supported by invoices or proper authorizations signed by the respective patients.

Deceased Patients' Funds: An analysis of the Patients' Funds balance on the date of audit indicated that there was included \$2,825.62 representing accounts of seven deceased patients, as follows:

| <u>Date of Death</u> | | <u>Amount</u> |
|----------------------|------|---------------|
| July | 1951 | \$ 20 00 |
| August | 1951 | 20 00 |
| September | 1951 | 1,620 00 |
| January | 1952 | 70 00 |
| May | 1952 | 164 62 |
| June | 1952 | 886 00 |
| July | 1952 | 45 00 |

It is recommended that the necessary action be taken so that these funds will be properly distributed.

Legacy Fund - New Bequest: It was noted that a check was received on December 5, 1951 for \$1,302.98, from the Estate of John J. McGlone, a former patient, as a bequest to the Legacy Fund. This money represented 50% of the residue of the estate and was the share authorized to be paid the Soldiers' Home under Article Three of the last will of the deceased. The final accounting of the estate was allowed by the court on November 29, 1951 and indicated a gross estate of \$3,522.67, expenses and special bequests totaling \$916.71 and a residual estate of \$2,605.96 of which the institution received one half or \$1,302.98.

Donation Fund - Receipts: It was noted that this fund received during the audit period donations totaling \$6,796.32 as was indicated by the treasurer's records. However, acknowledgment letters were sent to donors for gifts of only \$2,628.70 or 38.7%. In order to provide a better system over these cash donations, it is suggested that a duplicate set of serially numbered acknowledgment receipts be printed to be issued to each donor by the Commandant's Office for each donation. The duplicate copy of the receipts would remain at the institution and serve as accounting control.

Donation Fund - Overpayment: It was noted that a check for \$515.00 had been drawn on this fund and issued to the Legacy Fund as a reimbursement for two invoices properly chargeable to the Donation Fund. In this connection it was found that the invoices had actually been paid by the Donation Fund and therefore no reimbursement payment was necessary. This matter was called to the attention of the necessary personnel and the required adjustment was effected.

Donation Fund - Bank Interest: It was noted that the cash balance of the Donation Fund amounted to \$22,189.34, of which \$21,486.69 was on deposit in savings accounts. In verifying the bank interest on the savings accounts, it was learned that one account, which is in a Savings Bank received interest at the rate of 2 1/2% whereas the other two savings accounts, which are not in Savings Banks received interest at the rate of only 1% on aggregate balances of \$16,467.94. It is suggested that the matter be reviewed, so that the funds will be deposited in depositories where they may earn the maximum amount of interest.

Donation Fund - Invoices not Available: It was noted that checks totaling \$907.81 had been issued to motion picture companies as payment for film rentals for which no invoices could be found in the files of the institution. In this connection it was learned that it is the practice of most film companies to issue only one copy of an invoice. This copy is, however, compared with the film receiving records maintained by the institution and is then returned to the film company to identify the payment when made. It is suggested that the film companies be requested to submit two copies of each invoice.

Cigarette Account: Under an agreement made in October 1951 between the Soldiers' Home in Massachusetts and the Chief of Special Services at the West Roxbury Veterans Administration Hospital, this institution is permitted to purchase tax-free cigarettes from that veterans hospital for 71¢ per carton and to sell them at 75¢ per carton to veterans organizations for free distribution to all of the patients. Under this plan, the Soldiers' Home makes the checks payable directly to the Treasurer of the United States. The cigarettes are delivered to an officer of the institution who acts as custodian and the cigarettes are distributed to the patients in the name of the veterans organization to whom the tax-free cigarettes have been sold. This selling price at a small profit for these cigarettes to veterans organizations is in accordance with the national policy of Veterans Administration Hospitals of providing for losses resulting from pilferage, breakage and other damages from handling.

LOWELL TEXTILE INSTITUTE

REPORT NO. 53-11

Students' Charges: The previous audit report commented at great length about certain fees charged by this Institute. In this connection it was noted that certain changes in fees charged were made - none of them, however, affected tuition. These changes involve the following:

| | 1951 1952 <u>Fee</u> | 1952 1953 <u>Fee</u> |
|-------------------------------------|----------------------------|----------------------------|
| Activity Fee | \$25 00 | \$30 00 |
| Machine Shop Deposit | 10 00 | 15 00 |
| General Breakage Fee | 10 00 | 15 00 |
| Matriculation Fee | - | 25 00 |
| R. O. T. C. Deposit | - | 25 00 |
| All Manufacturing Laboratories | - | 5 00 |
| Commencement Fee | - | 15 00 |
| Textile Finishing Laboratory Charge | - | 20 00 |

Accounts Receivable Ledger: Because the detailed accounts receivable ledger consists only of charges and credits for tuition and dormitory rents, it could not be reconciled with the general ledger control account. While this audit was in progress, in conformance with a suggestion in this regard, individual sheets were inserted to include charges and credits for sales, cafeteria rents, dormitory transient rents, other rents, etc.

Cafeteria Contract: On the date of audit there was due from the cafeteria concessionaire \$2,237.14 representing amounts due from February 1952 to June 1952 inclusive. It was further noted that there had been actually received on account of cafeteria rents between August 1951 and January 1952, inclusive, \$3,204.73.

On September 12, 1952 a new contract was negotiated with the same concessionaire which makes arrangements for paying the arrearages on this revenue for the previous school year. A copy of this agreement follows:

September 12, 1952

"It is hereby mutually agreed by and between ---- of ----, Lowell, Massachusetts, Manager and Concessionaire of the Institute Cafeteria at Lowell Textile Institute, and the Lowell Textile Institute, as follows:

1. That the Concessionaire shall pay to the Bursar of said Institute at the end of each month during the 1952-1953 academic year the amount of money due for that month representing ten per cent (10%) of the gross income for that month.
2. In addition, that the Concessionaire shall pay to the Bursar of said Institute at the end of each month an amount of money equal to 50% the monthly amount outstanding for the academic year 1951-1952 for each month in its proper sequence and to continue to make such payments each month (unless the entire amount due the Institute shall be sooner paid in full to the satisfaction of the

Institute) until the entire balance due for the academic year 1951-1952 shall be paid in full to the satisfaction of the Institute. All such payments shall be based upon the amounts outstanding for the 1951-1952 academic year as they appear on the records of the Institute as maintained by the Bursar of said Institute."

Athletic Fund: It was noted that the director of this fund is now bonded for \$2,000.00. It was further noted that a demand note on this fund dated January 30, 1951 which is held by the Union National Bank of Lowell is still unpaid.

BOARD OF REGISTRATION IN NURSING

REPORT NO. 53-12

Annual Renewals not Issued: This audit was initiated as a result of many complaints received by the Department of the State Auditor and by this Board to the effect that annual renewals, the fees for which had been paid, were not issued. Examination disclosed that in many instances the necessary fees had been mailed in currency between May 1, 1952 and July 28, 1952, and no record of the receipt of the fees or their disposition was available in the Board's records. It was also found that in several instances, applicants who had paid the required renewal fees in person at the office of the Board in February and March 1952 had not received their certificate.

Every effort was made to determine the reasons for and the extent of these discrepancies and in this connection about 2,000 requests for verification were mailed to those who would have requested license renewals during the period in question. As a result, it developed that apparently \$383.00 had been paid by applicants during the period beginning in February 1952 and ending in July 1952, and for which no actual licenses had been issued. The person or persons responsible for these variances have not, as yet, been identified.

The entire matter was discussed with representatives of the bonding company, who issued the performance Fidelity Bond to this Board and as a result, that company has agreed to compensate the Board on the following basis:

| | |
|--|-----------------|
| Renewal Certificates - Cash Received and | |
| Certificates not Issued | \$151 00 |
| Second Payments Made on Request of | |
| Board - Refunds Due | 224 00 |
| Renewal Certificates Issued - No Fees Received | 8 00 |
| | <u>\$383 00</u> |

Extra copies of this report together with lists of those to whom renewals or refunds should be made are being issued to the Director of the Division of Registration to facilitate the processing of these claims for reimbursement and for the information of the bonding agency concerned.

Simultaneous Audits of Other Boards of Registration: Because of the findings in this Board, audits were simultaneously initiated in all other Boards of Registration on September 2, 1952. Separate audit reports of these examinations will be issued.

Handling of Receipts: Previous audit reports have noted that several persons handle the cash receipts. Recommendations have been repeatedly made that the Division of Registration together with the Comptroller's Bureau study this situation in an effort to establish responsibility. Had these recommendations not been constantly ignored, the misappropriation of funds by unknown persons would undoubtedly not have occurred.

Because of the present system, it is impossible to fix responsibility because scarcely any internal control is available. In this connection certain fundamental precautions are necessarily important to insure proper handling of future receipts. These include:

1. One person should open the mail, record all items.
2. A separation of duties is necessary so that the same person will not process renewals, etc. from inception to completion.
3. A periodic rotation of duties would also insure more efficient accounting control.
1. Receipts should be deposited intact each day.

Filing System: It is recommended that a survey be made of the archaic filing system currently in use so that necessary changes will be made to make it more modern and practicable.

Renewal Certificates: Renewal Certificates for Nurses and Attendants are issued annually to approximately 42,500 registrants for a \$1.00 fee. It is suggested in the interests of economy, etc., that consideration be given to issuing these renewals every two years at double the present fee.

Re-Examination Privileges: Under the existing statutes applicants for certificates as Registered Nurses and Licensed Attendants who have failed their examination may take another examination within one year gratuitously. It is suggested that legislation be sought relative to the elimination of this gratuitous second examination and that fees be charged for all examinations.

GARDNER STATE HOSPITAL

REPORT NO. 53-13

Canteen Theft: On the night of Thursday, July 17, 1952, the canteen was broken into and merchandise ostensibly valued at \$113.35 was stolen. It was understood that the local police were notified as was also the Department of Mental Health. To date of audit the responsibility for this theft has not been established.

Canteen - Merchandise Sold at Prices Other Than Computed Retail: It is recommended that when merchandise is sold at prices either above or below those originally posted to the selling price column of the cash book that an adjustment be made so that this column will reflect the total actual selling prices.

DEPARTMENT OF CIVIL SERVICE AND REGISTRATION

GENERAL DEPARTMENT

REPORT NO. 53-15

License Renewals by Various Boards: Attention is called to the fact that many of the Boards of Registration are forced annually to handle the mailing and filing of thousands of renewal applications, renewals, etc. Because of this arrangement, these boards are severely handicapped at various peak periods during each year when the processing of these renewals develops. In the interest of more efficient management and better accountability, it is suggested that serious consideration be given to the establishment, as an integral part of the Division of Registration, of a Central Renewal Section. It is further suggested that legislation be sought relative to the issuance of all licenses on a biennial basis. At the same time it is suggested that efforts be made to enact legislation which will provide for an equitable distribution of renewal dates throughout the calendar year.

If the foregoing suggestions become effective, it will then be easily possible to obtain competent tabulating machine assistance in effectively working out all practical administrative and clerical problems.

It is also mentioned in connection with this matter that in no wise should the issuance or control of the original licenses by the respective boards be disturbed if the foregoing suggestions are favorably acted upon.

BOARD OF REGISTRATION IN MEDICINE

REPORT NO. 53-16

Transfer of Income Receipts: Attention is called to the fact that during the audit period which included approximately ten months, only eleven deposits of income receipts were made with the State Treasurer and Receiver-General. In this connection it was noted that the time lapse between deposits ranged from two weeks to more than two months.

Inasmuch as this practice is in violation of the statute and the Comptroller's regulations, it is suggested that these deposits be made daily unless other specific authority is obtained.

Cash Book: It was noted that the division cash book is not being properly handled. In this connection it was noted that frequently no distinction is made as to months, pages are not ruled and totaled and the page totals are entered with a pencil rather than in ink.

It is suggested that steps be taken to correct this situation as soon as is possible.

Minutes of Board's Meetings: In this connection the previous audit report stated as follows:

"It was again noted that applicants for certificates to practice medicine who qualify through endorsement and National Board certification are issued certificates by means of a vote of the Board of Medicine which is recorded in the minutes. However, there is no record in the minutes relative to the results of the examination and re-examinations held for regular qualifying applicants."

Inasmuch as no change has been made in the present practice, it is again recommended that the results of all examinations and re-examinations be also made a part of the board minutes.

Certificates: It was noted that during the current audit period, there were assigned for issue 192 certificate numbers indicating that they were eligible to receive certificates because they had successfully completed the requirements by examination of this board, by examination of the National Board or by endorsement from other states.

To date, however, the certificates have not been sent to the engrosser, and they are still included with the inventory of certificates on hand.

It is suggested that henceforth arrangements should be completed to promptly bring these certificates to those who are entitled to them.

Suspense Account: Several previous audit reports have stated in this regard as follows:

"As now installed, the suspense accounts for examinations and certified statements are merely reference accounts without control or proof. Only those entries are put in suspense which cannot be given an application number of acceptance. Items in suspense, such as those waiting examinations, are not considered suspense items. It is recommended that the Division of Registration and the Comptroller's Bureau study the feasibility of making the suspense account an actual controlling account."

Inasmuch as nothing has been done in this regard, attention is again called to it.

Application Numbers: In this connection the previous audit report stated:

"The previous two audit reports recommended that the Comptroller's Bureau review the methods now in effect so that each entry will be identified with a cash book entry number, this number also appearing on the application. As this has not been done, attention is again called to it."

It was learned that this matter was reviewed and it was determined to be "not practical". It is understood, however, that the next printed cash book will include a column for the entry of the certificate or registration number, which will probably facilitate future audits.

Excess of Disbursements Over Receipts: Attention is directed to the fact that the appropriation expenditures of this Board exceeded its revenue during the fiscal year ended June 30, 1952, in the amount of \$687.62.

Registration of Registered Physical Therapists: Under the provisions of Chapter 656 of the Acts of 1951, registration of certain persons as Physical Therapists is authorized. Section 2 of this act further provides for registration by waiver of individuals who were members of certain specified associations on the date when this law became effective.

This Board, however, has taken exception to this statute and it is understood that the matters in question have been brought before the courts for interpretation, etc.

In this connection it was noted that the Board has received \$2,440.00 to the date of audit from those who are desirous of registration by waiver. No cash has as yet been accepted from those who must take an examination to qualify under this statute. The

488 applications in question are temporarily included in the pending file.

BOARD OF REGISTRATION OF HAIRDRESSERS

REPORT NO. 53-17

Pending Applications for Licenses: On June 30, 1952 the balance of \$4,551.00 in the Inactive Applications account was forfeited under authority of Chapter 509 of the Acts of 1951 which provides that when an applicant does not appear for any one of three examinations, of which he has been notified, the examination fee shall be retained by the board. This statute precludes the necessity for maintaining a pending inactive file as was done in prior years. Now there is only one pending file of applications for examination. The total amount received thereon was \$1,773.00 as of the date of audit.

Shop Renewal Forms: The physical inventory taken on September 2, 1952 indicated that 100 renewal blanks were missing out of a total of 4,500 which were ordered for 1952 as was indicated on the purchase orders. The employees of the Board recalled having seen the package containing these renewal blanks, yet a thorough search of the office failed to make them available for use in connection with this audit. The Board has notified all of its inspectors to watch for the missing numbers.

Expenditures: Chapter 561 of the Acts of 1951 provides in part as follows:

"... that the salaries and expenses of the members of the board, and the expenses of the board, shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

In this connection it is noted that there was again an excess of expenditures over receipts for the fiscal year ending June 30, 1952.

BOARD OF REGISTRATION OF PROFESSIONAL ENGINEERS AND LAND SURVEYORS

REPORT NO. 53-18

Bonds: Arrangements have been completed to bond the clerk who usually handles money over the counter. This action was in accordance with a recommendation in the previous year's audit report.

Receipt Books for Initial Fees: It was noted that receipt books of card numbers 5951 to 6000 inclusive, which were not available for examination at the time of the previous examination, were found and presented for audit.

BOARD OF REGISTRATION OF ARCHITECTS

REPORT NO. 53-19

Applications on File: Section 44C of Chapter 696 of the Acts of 1941 states in part as follows:

"The Board may make such rules or by-laws, not inconsistent with law, as it may deem necessary in the performance of its duties."

To expedite the processing of applications and to keep the number of pending applications at a minimum, the Board, at a meeting held on April 17, 1950 voted:

"An applicant would not be entitled to refund of application fee after he had submitted to either interview or written examination."

At a meeting of the Board on October 2, 1950, the following vote was taken:

"All applications on file over two years are voided and no refunds are to be made on same."

On the date of audit there were 95 applications in the pending file. In this connection it was noted that several have been in this pending category longer than the two years indicated. Satisfactory explanations were however obtained in all of these instances.

BOARD OF REGISTRATION IN VETERINARY MEDICINE

REPORT NO. 53-20

Renewal Fees: The previous audit report indicated that penalties were not being assessed in conformance with Section 1 of Chapter 433 of the Acts of 1951 which states as follows:

"Every registered veterinarian shall, annually before March first, pay to the board a license fee of five dollars, in default of which the board may revoke his license and his authority to practice veterinary medicine thereunder, after a hearing as provided by section sixty-one; but the payment of said fee at or before the time of hearing, with such additional sum, not exceeding ten dollars, as may be fixed by the board, shall remove the default."

In this connection it was noted at this time that penalties in accordance with the foregoing statute are now being imposed where warranted.

BOARD OF REGISTRATION OF DENTAL EXAMINERS

REPORT NO. 53-21

Annual Registration: Chapter 112, Section 44 of the General Laws states that:

"Every registered dentist, when he begins practice, shall notify the Board of his address and shall pay a fee of two dollars before April 1st of each year."

The previous audit report noted that approximately 10% of the previous year's registrations had not been renewed, and recommended that the Board, by correspondence or otherwise, follow up on some methodical basis all those instances of registrations in the previous license year that did not register in the current year.

It was noted in connection with this audit that approximately 2 1/2% of the previous year's registrations had not been renewed.

Bonds: It was again noted that the secretary of the board is not bonded. The senior clerk, who actually handles the office cash is, however, bonded now by the blanket bond issued to the Division of Registration.

Unpaid Check: In balancing the cash in connection with the current examination, it was noted that there was in the office an unpaid check in the amount of \$25.00 drawn on a Boston bank and dated June 10, 1926. No information was available as to the source of the check or the reasons which provoked it being in the office for the past 26 years.

It is suggested that the bank on which the check was drawn be contacted with respect to any information which they may have available as to the check's maker, etc.

BOARD OF REGISTRATION IN EMBALMING
AND FUNERAL DIRECTING

REPORT NO. 53-22

Examination Fees: The previous three audit reports recommended that a duplicate copy of a serially numbered receipt form be given to each person paying an examination fee, as at present receipts are still only given to those persons paying their examination fees in currency in the office. It is therefore again recommended that a receipt be given all persons paying examination fees.

Apprentice Registrations: The previous audit report indicated that there were 7 applications and fees totaling \$11.00 which had been received prior to January 1, 1950. It is again suggested that they be disposed of as it appears doubtful that the individuals concerned will ever appear for their respective examinations.

Embalmers' Re-Examinations: The previous audit report also noted that there were on hand 3 applications together with fees in the aggregate amount of \$15.00 which had been received prior to January 1, 1948. It is again recommended that these fees should also be disposed of as it is doubtful that the parties concerned will appear for their examinations.

Unlicensed Funeral Director: This classification includes those individuals who have passed the required Funeral Director's examination but were not actually licensed because they do not have within the Commonwealth a funeral establishment which has been approved by this Board in accordance with statute.

These individuals are registered by the Board as such, and must annually renew this registration and pay the prescribed fee of \$10.00.

In this connection it was noted that in these instances no formal registration card or license is issued. There is, however, issued a mimeographed acknowledgment. Inasmuch as this particular form is not prenumbered, the checking of the income from this source through this medium was obviously impractical. It is therefore suggested that prenumbered receipts be issued to acknowledge fees from this source.

BCARD OF REGISTRATION OF BARBERS

REPORT NO. 53-23

Receipts Vouchers: It was noted that in many instances deposits of receipts were not being promptly made. In this connection Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws states:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."

It is, therefore, recommended that deposits be made in accordance with the foregoing.

Bonds: It was noted that the Senior Clerk who handles cash is not bonded. It is recommended that she be bonded.

BOARD OF REGISTRATION IN PHARMACY

REPORT NO. 53-24

Current Pending Applications: These items as of September 2, 1952, consisted of 21 applications for examinations for Registered Pharmacists, 35 drugstore permits, 24 for Certificates of Fitness and 7 for Wholesale Druggists.

Pending Applications in the Inactive Files: These applications represented 15 who have failed to appear for examinations.

Office Procedure: It was noted that the three permanent clerks and the secretary of the board are bonded in respective amounts of \$1,000.00. Usually mail is opened by any of these employees, but during the short renewal period it is opened by the foregoing together with a temporary clerk and an inspector.

It is suggested, in the interests of better accountability, that the procedure be reviewed so that the responsibility for opening mail and extracting the contents will be vested in one individual.

STATE EXAMINERS OF ELECTRICIANS

REPORT NO. 53-25

Depositing Money on Account of Income: It was noted that income was held in the office for over one week on two different occasions in August, 1952, before it was deposited with the State Treasurer. In this connection attention is directed to Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws which states:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require payment may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."

It is, therefore, suggested that all deposits be made more promptly.

Posting: It was also noted that ledger page numbers do not appear on the Board's cash book to identify monthly postings made in the general ledger. It is suggested that this situation be corrected.

BOARD OF STATE EXAMINERS OF PLUMBERS

REPORT NO. 53-26

Examinations: It was noted that pending applications for examination on hand included 9 which were made prior to the 1948 fiscal year. It is again suggested that the status of these inactive pending applications be reviewed.

Income Deposits: It was noted that the income deposit of April 30, 1952 was reported by the bank as being \$5.00 short. The records appeared to indicate that a check drawn on a Lee, Massachusetts bank in that amount was the item in question. Letters by the Board to the possible makers of the check failed, however, to locate the individual responsible.

Income Received: Attention is called to the fact that income received by mail and over the counter is accepted by any of the three clerks in the office. It is suggested that steps be taken to segregate this responsibility.

LOWELL TEXTILE INSTITUTE RESEARCH FOUNDATION

REPORT NO. 53-29

General: The statute under which this entity operates also provides that in conducting contractual or other researches, tests or other activities, it shall give preference to citizens of and to corporations organized under the laws of Massachusetts, and that no activities be undertaken which will be likely to interfere with the exercise of the functions of the Institute.

This Research Foundation actually began to function as a separate agency of the Institute on July 1, 1951 under control of the Board of Trustees acting through an especially created Board of Directors.

In a letter from the Comptroller's Bureau dated July 17, 1951 the following rules for the financial conduct of this organization were promulgated:

1. All revenue received by the Foundation must be transmitted to the State Treasurer for credit to the Fund account which has been established.
2. All expenses of the Foundation must be submitted to this Bureau on schedules for payment by the State Treasurer.
3. The establishment of salary rates and a determination of pay periods is the responsibility of the Trustees.
4. Regulations relative to travel and travel allowances should be promulgated by the Trustees.
5. The usage of State forms and Procedures is within the prerogatives of the Trustees.
6. Requests for advance money to pay certain types of expenses will be given due consideration by this office when funds for this purpose are available.

In accordance with a suggestion in the previous audit report the advice of the Attorney General has been requested relative to the legality of these regulations.

Accounting Records: Prior to July 1, 1951 all financial transactions were handled through the Bursar's office. Beginning May 1, 1952 a set of accounting records, but not the regular state system, was installed. However, since that date a certain part of the bookkeeping is still being performed by the Bursar's office which includes the preparation of the pay rolls, handling of advance money and remittal of income to the State Treasurer. It is suggested that this work be entirely performed by the Foundation's staff.

Accounts Receivable: There is now available a control account for Accounts Receivable. As of the date of audit the outstanding accounts were indicated as follows:

| | |
|----------------------|-------------------|
| In Bursar's Office | \$ 140 25 |
| In Foundation Office | 4,741 79 |
| | <u>\$4,882 04</u> |

The accounts in the Bursar's office were for services performed prior to July 1, 1951, on which date the Foundation began to function. It is again suggested that all accounts outstanding be transferred to the Foundation records.

Amount Due to Lowell Textile Institute: It was agreed to reimburse the Commonwealth for the use of facilities of the Institute at a meeting of the Executive Committee of the Board of Directors held on July 13, 1951 on the following arrangement:

1. It is agreed that the Foundation would recommend to the State that 15% of direct labor costs be the overhead payment to the State for the use of the Institute's facilities regardless of the nature of the facilities.
2. Certain contracts in existence prior to the establishment of the 15% rate provided for only 10% overhead charges to customers. In these cases, the amount of reimbursement to the State will be at the rate of 10%.

In this connection a determination was made during the course of this audit to ascertain the amount due as of September 3, 1952, and it appears that the following items were outstanding:

Use of Facilities:

| | |
|---|-------------------|
| February 1, 1951 to June 30, 1951 | \$ 827 92 |
| July 1, 1951 to February 21, 1952 | 2,581 15 |
| February 22, 1952 to September 3, 1952 | 439 23 |
| Room Rentals a/c Textile Workshop Group | 160 00 |
| | <u>\$4,008 30</u> |

Expenditures from Income Cash: It was noted that the cash received during the previous audit period had not entirely been transferred to the State Treasurer. In this connection it was noted that \$176.65 of this money had been retained in the Foundation office and was being used as a petty cash fund from which advances to employees and certain local cash disbursements were being made. During this audit period \$132.34 of this money was transferred to the Bursar of the Institute but \$44.31 was still in its original category. Inasmuch as an advance for petty cash purposes has now been received, this balance of \$44.31 should be forwarded to the State Treasurer to be credited to the funds of this account.

Fellowships: Two graduate fellowships for advanced study in textile chemistry have been established at the Lowell Textile Institute and are offered to qualified graduates of the chemical engineering or chemistry courses. The sponsor of these fellowships is interested in encouraging promising young men in these fields to become better acquainted with the peculiar problems and needs of the textile industry.

These fellowships are administered, however, through this Foundation which pays the required tuition and fees to the Institute and a stipend to the student. It also remunerates faculty supervisors for supervision of research beyond normal academic requirements and pays the costs of the necessary supplies and equipment. Both of these fellowships have been filled. These particular selections were agreed upon by the sponsor and the Foundation subject to their prior acceptance as graduate students by the Graduate School of the Lowell Textile Institute.

Time Devoted by Faculty Members of the Institute to Research Foundation Projects: An analysis of the number of hours devoted by faculty members of the Institute to projects of the Research Foundation was made, covering the period from February 21, 1952 to September 3, 1952. It was noted that they are compensated for their services through the medium of standard invoices, and that amounts so received are in addition to their salaries as faculty members. In this connection, a maximum of 60 hours per month for each faculty member on work performed for the Research Foundation during the months of September through May inclusive, became effective as of April 1, 1952.

Bonding of Employees: The Executive Director of the Foundation is bonded but the clerk handling the cash is not. It is, therefore, suggested that arrangements be completed so that all employees handling cash be bonded.

PORT OF BOSTON AUTHORITY

REPORT NO. 53-31

General: The real measure of the success of operations of the Port of Boston Authority lies in the annual figures of tonnage handled by the Port. An examination of these statistics for the last five years indicates the following:

| <u>Year</u> | <u>Total Tonnage</u> |
|-------------|----------------------|
| 1947 | 18,502,902 |
| 1948 | 18,317,356 |
| 1949 | 15,363,529 |
| 1950 | 18,194,438 |
| 1951 | 18,976,880 |

It is obvious that the present national emergency has been largely responsible for the tonnage recovery shown in 1950 and 1951, therefore the totals for these years should be discounted in determining future policy with regard to further costly expansion of the Port.

It was however noted that the volume of business handled for these years by the Port has not been reflected in the pay rolls of the Authority. The number of permanent employees of the Port was increased from 116 in 1948 to 127 in 1949 to 137 in 1950 and there was a further increase to 142 employees in 1951.

This Authority was created to encourage shipping through the Port of Boston by moderate subsidization and for that reason public credit was made available for the purpose of constructing modern piers throughout the harbor. Legislation authorizing this construction generally required that no construction would be initiated unless the planned facility was leased in advance for a period of at least twenty years, and the same legislation also required that the terms of such lease would be based on a rate high enough to insure that the Commonwealth would recover sixty per cent of the total actual cost of construction.

Deficiency: Attention is directed to Schedule No. VIII in this report which demonstrates that if all factors of expense are taken into consideration the Port operated under a deficiency of \$1,164,486.39 during the fiscal year ending June 30, 1952, and that the total deficiency from Port operations in the period from July 1, 1946 to June 30, 1952 has amounted to \$4,150,930.70.

In this connection the following schedule shows that part of the current year's deficiency which came about directly as the result of operations:

| | |
|---|---------------------|
| Expenditures under Maintenance Appropriations: | |
| Administration (see Schedule No. VI) | \$370,196 36 |
| Maintenance of Property (see Schedule No. VI) | <u>408,392 19</u> |
| Total Expenditures under Maintenance Appropriations | \$778,588 55 |
| Receipts (see Schedule No. VIII) | <u>612,426 91</u> |
| 1952 Fiscal Year Deficit in Maintenance | <u>\$166,161 64</u> |

Attention is further directed to the fact, that when this deficiency is added to the cost of the bond issues the net cost of the Port to the Commonwealth for the fiscal year 1952 amounted to \$1,164,486.39.

Bond Account - Boston Harbor Facilities Loan Fund: Section 10 of Chapter 619 of the Acts of 1945 provides in part as follows:

"Section 10. Subject to the conditions herein imposed, for the purpose of purchasing sites and pier locations and for the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, inserted therein by section three of this act, the state treasurer shall, upon request of the Authority and with approval of the governor and council, issue and sell at public or private sale bonds of the Commonwealth registered or with interest coupons attached, as he may deem best, to an amount to be specified by the Authority from time to time, but not exceeding, in the aggregate, the sum of fifteen million dollars"

The status of the bond account authorized under this statute follows:

| | | | |
|---|----------------|----------------|-----------------|
| Bonds Authorized | | | \$15,000,000 00 |
| Bonds Issued: | | | |
| Hoosac Pier and Grain Elevator Property | \$5,000,000 00 | | |
| Improved Pier and Grain Facilities, East Boston | 3,650,000 00 | | |
| Mystic Wharves Property Improvements | 840,000 00 | \$9,490,000 00 | |
| Bonds Authorized - Not Issued: | | | |
| Improvements Pier and Grain Facilities, East Boston | \$3,850,000 00 | | |
| Castle Island | 1,200,000 00 | | |
| Mystic Wharves | 460,000 00 | 5,510,000 00 | \$15,000,000 00 |

Expenditures and Encumbrances under Bond Issue: The State Treasurer in compliance with requests from the Authority has issued bonds totaling \$5,000,000.00 to June 30, 1952 for the "Hoosac Pier and Grain Elevator". The following is a summary of expenditures and encumbrances to June 30, 1952 in this account:

| | |
|------------------------------------|-------------------|
| Amount Authorized and Bonds Issued | \$5,000,000 00 |
| Expenditures and Encumbrances | 4,998,771 10 |
| Balance Available | <u>\$1,228 90</u> |

| | Payments | Encumbrances | Total |
|----------------------------|-----------------------|-----------------|-----------------------|
| Purchase of Hoosac Pier | \$1,042,176 00 | - | \$1,042,176 00 |
| Purchase of Grain Elevator | 100,000 00 | - | 100,000 00 |
| Personal Services | 131,464 09 | - | 131,464 09 |
| Expenses | 34,528 89 | - | 34,528 89 |
| Contracts* | 3,690,219 10 | \$383 02 | 3,690,602 12 |
| | <u>\$4,998,388 08</u> | <u>\$383 02</u> | <u>\$4,998,771 10</u> |

* Contracts:

| | | | |
|--|---------------|---|---------------|
| Engineering Services | \$ 100,596 97 | - | \$ 100,596 97 |
| Demolition and Removal Grain Conveyor Gallery and Pier | 17,500 00 | - | 17,500 00 |
| Test Borings | 2,957 86 | - | 2,957 86 |
| Excavating, Dredging and Filling | 368,163 34 | - | 368,163 34 |
| Construction and Substructure | 1,598,010 47 | - | 1,598,010 47 |
| Demolition of Buildings | 1,200 00 | - | 1,200 00 |
| Battery Charging Building | 70,041 17 | - | 70,041 17 |
| Construction of Superstructure | 717,871 53 | - | 717,871 53 |
| Repairs to Elevators | 682 33 | - | 682 33 |
| Fire Alarm System | 7,627 00 | - | 7,627 00 |
| Track Well Bridge | 10,940 00 | - | 10,940 00 |
| Roadway | 9,455 04 | - | 9,455 04 |
| Testing Materials | 5,860 11 | - | 5,860 11 |
| Design of Grain Handling Facilities | 12,721 46 | - | 12,721 46 |
| Steel for Grain Conveyor | 48,322 02 | - | 48,322 02 |
| Furnishing and Installing Special Machinery for Grain Elevator | 254,429 13 | - | 254,429 13 |
| Anchorage System | 104,125 00 | - | 104,125 00 |
| Furnishing and Erecting Bronze Tablet | 1,134 00 | - | 1,134 00 |
| Furnishing and Installing New Electric System and Floodlights | | | |
| Pier #1 | 2,285 00 | - | 2,285 00 |
| Dredging | 13,684 32 | - | 13,684 32 |
| Installation of Built Up Roof for Grain Elevator | 5,845 00 | - | 5,845 00 |
| Painting and Waterproofing | 16,000 00 | - | 16,000 00 |
| Grain Weighing Scales | 11,940 00 | - | 11,940 00 |

Alterations and Improvements to

Electric System in Grain

| | | | |
|---------------------------------------|-----------------------|-----------------|-----------------------|
| Elevator | \$ 16,416 75 | - | \$ 16,416 75 |
| Repair Windows and Drainage System | 18,093 99 | - | 18,093 99 |
| Repairs to Elevators | 1,037 00 | - | 1,037 00 |
| Asphalt Floor Tile | 475 00 | - | 475 00 |
| Cleaning Grain Elevator | 4,923 00 | - | 4,923 00 |
| Fumigating Grain Elevator | 4,975 00 | - | 4,975 00 |
| Installing Steel Chute Gates | 1,146 15 | - | 1,146 15 |
| Installing Electric Power Outlets | 4,809 69 | - | 4,809 69 |
| Removal of Debris | 683 00 | - | 683 00 |
| Resurfacing Paving | 2,185 00 | - | 2,185 00 |
| Installing Cleaning System | 8,006 84 | - | 8,006 84 |
| Platform at Grain Elevator | 1,379 00 | - | 1,379 00 |
| Engineering Agreement | 3,644 74 | - | 3,644 74 |
| Lowering of Windows in Grain Elevator | 545 65 | - | 545 65 |
| Steel for Superstructure | 191,091 09 | - | 191,091 09 |
| Expansion Proof Motors | 2,864 77 | - | 2,864 77 |
| Rehabilitation of Trackage | 423 38 | - | 423 38 |
| Replacement of Hand Winches | 42,933 00 | - | 42,933 00 |
| Repair to Scales | 2,307 69 | \$383 02 | 2,690 71 |
| Repairs to Electric Motors | 886 61 | - | 886 61 |
| | <u>\$3,690,219 10</u> | <u>\$383 02</u> | <u>\$3,690,602 12</u> |

Hoosac Pier: It was noted that the five year lease for these premises originally entered into with the Boston and Maine Railroad in May 1949, which is based on a percentage of the construction costs, was amended on April 11, 1951, to include the adjusted cost of construction in the amount of \$4,583,289.00.

Hoosac Pier Computation of Rent: In this connection the previous audit report stated:

"Section 10 of Chapter 619 of the Acts of 1945 stipulates that the rent under the lease shall be at a rate sufficient to amortize sixty per cent of the actual cost to the Commonwealth. It is immediately obvious that 'actual cost to the Commonwealth' must include the cost of construction plus all the costs incident to its financing, and this Department insists that the total cost of interest for the entire period while bonds are outstanding is an essential element in any rental computation. In this connection it was noted that the Authority in making this computation included interest costs only to February 28, 1951."

Attention is directed to the fact that had the foregoing requirements been followed the income from the first date of rental on March 1, 1951 to August 31, 1952 would have exceeded that which was received by \$19,153.66, computed as follows:

| Rental Period | Rent that Should Have Been Charged | Rent as Charged | Difference |
|---------------------------------|--|---------------------|--------------------|
| March 1, 1951 to June 30, 1951 | \$ 49,689 28 | \$ 45,432 88 | \$ 4,256 40 |
| July 1, 1951 to June 30, 1952 | 149,067 70 | 136,298 64 | 12,769 06 |
| July 1, 1952 to August 31, 1952 | 24,844 64 | 22,716 44 | 2,128 20 |
| | <u>\$223,601 62</u> | <u>\$204,447 96</u> | <u>\$19,153 66</u> |

It is suggested that this matter be referred to the Attorney General for advice.

Hoosac Pier Grain Elevator: The original lease with the Boston and Maine Railroad provided for rental of this elevator upon its completion, at an annual rental equal to 3% of the cost of the elevator and its additions, alterations, etc., for a period of twenty years, based on a tentative cost of \$525,000.00. This lease was later amended

to reflect increased costs of \$80,000.00, bringing the total to \$605,000.00.

On May 28, 1952 another and final amended lease was approved by the Governor and Council increasing the tentative cost to \$653,000.00.

It was noted, however, that the railroad actually occupied the premises as of April 20, 1951, and for a period of four months operated them on a trial basis until August 20, 1951 when the lease actually became effective.

Attention is also directed to the fact that the rental charges reflect only the interest charges on monies borrowed during the period of construction. In this connection it is contended that these charges should include all interest costs during the entire life of the bonds.

Hoosac Pier - Additional Work: The previous audit report stated that the final payment in the amount of \$10,101.55, on the contract for additional work on this pier had not been completed because the contractor had filed a suit for alleged additional work.

In this connection it was noted that this suit was adjudicated in Suffolk Superior Court by a judgment for the contractor in the amount of \$4,900.00, which has been paid together with the original final payment of \$10,101.55.

Boston and Albany Piers - East Boston: Chapter 545 of the Acts of 1948 states in part as follows:

"Subject to the conditions imposed by section ten of chapter six hundred and nineteen of the acts of nineteen hundred and forty-five, the Port of Boston Authority is hereby authorized, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, to make commitments and expenditures without further authorization by the general court therefor, from the proceeds of the bond issue provided for by said section ten up to but not in excess of the amount of seven million five hundred thousand dollars, such amount to be in addition to the amount heretofore authorized to be expended from said proceed."

In this connection Chapter 505 of the Acts of 1952 authorized the expenditure of \$5,850,000.00 on the East Boston pier facilities. Of this amount \$3,850,000.00 was to be made available by transfer from the unexpended balance of an appropriation of \$7,500,000.00 provided by Chapter 545 of the Acts of 1948.

The following schedule shows the analysis of the disbursements and encumbrances under this account to August 30, 1952:

| | | | |
|---------------------------|-----------------------|---------------------|-----------------------|
| Bonds Authorized: | | | |
| Chapter 505, Acts of 1952 | \$5,850,000 00 | | |
| Bonds not Issued | <u>2,200,000 00</u> | | |
| Bonds Issued | \$3,650,000 00 | | |
| Less: | | | |
| Payments and Encumbrances | <u>3,707,009 69</u> | | |
| Deficiency | | | <u>(\$57,009 69)*</u> |
| * 1952 Fiscal Year | | | \$35,803 52 |
| 1953 Fiscal Year | | | <u>21,206 17</u> |
| | | | <u>\$57,009 69</u> |
| | <u>Payments</u> | <u>Encumbrances</u> | <u>Total</u> |
| Purchase of Land | \$3,000,000 00 | - | \$3,000,000 00 |
| Personal Services | 137,144 90 | - | 137,144 90 |
| Expenses | 16,779 44 | - | 16,779 44 |
| Contracts* | <u>552,570 35</u> | <u>\$515 00</u> | <u>553,085 35</u> |
| | <u>\$3,706,494 69</u> | <u>\$515 00</u> | <u>\$3,707,009 69</u> |
| * Contracts: | | | |
| Engineering Agreements | \$168,061 69 | - | \$168,061 69 |

| | | | |
|--|---------------------|-----------------|---------------------|
| Test Borings | \$ 1,890 98 | - | \$ 1,890 98 |
| Renovating of Heating System | 951 29 | - | 951 29 |
| Demolition of Grain Gallery | 13,429 81 | - | 13,429 81 |
| Utility Line Supports | 3,965 00 | - | 3,965 00 |
| Relocating of Electric and Air Services | 5,414 92 | - | 5,414 92 |
| Replacing Aerial Cable | 535 00 | - | 535 00 |
| Alteration and Improvement to Grain Handling Facilities | 357,392 86 | - | 357,392 86 |
| Removal and Relocating of Certain Communication Lines | - | \$ 75 00 | 75 00 |
| Relocation of Fire Alarm | 199 80 | - | 199 80 |
| Electrical Work | 729 00 | - | 729 00 |
| Alterations, Telephone System | - | 440 00 | 440 00 |
| | <u>\$552,570 35</u> | <u>\$515 00</u> | <u>\$553,085 35</u> |

Lease of East Boston Facilities: An interim lease for these premises which comprise five piers including an open pier was dated July 1, 1949. The rent for these premises is based on 3% of the net cost of the construction of this project. However, this net cost was reduced by the value of the land on or about the premises of Pier #2 when it was demolished, and therefore, the annual rental is computed as follows:

| | |
|--------------------------------|-----------------------|
| Cost of Land | \$3,000,000 00 |
| Less: | |
| Value of Pier #2 | <u>175,000 00</u> |
| Net Cost | <u>\$2,825,000 00</u> |
| Rental Based on 3% of Net Cost | <u>\$84,750 00</u> |

The remaining piers are apparently in good condition and will probably require no major repairs, and they are presently in use.

At the expiration of this interim lease which is with the New York Central Railroad - when the Port Authority has completed the new pier - a lease for twenty years (with option for renewal) will become effective. This lease, however, originally provided for an annual rental of 3% of the cost of the construction, based on the following tentative figures:

| | |
|-----------------------------|-----------------------|
| Purchase Price | \$3,000,000 00 |
| Value of Commonwealth Lands | 145,000 00 |
| Estimated Maximum Cost | <u>4,500,000 00</u> |
| | <u>\$7,645,000 00</u> |

On September 3, 1952, however, an amended agreement was approved by the Governor and Council making provisions for increases in the cost of construction of the pier and grain facilities. Rentals therefore were increased and now it is stipulated that on completion of construction a lease will be written for twenty years at an annual rental fee of 3% of the following adjusted costs:

| | |
|----------------------------|-----------------------|
| Purchase Price | \$3,000,000 00 |
| Value of Commonwealth Land | 145,000 00 |
| Maximum Cost | <u>5,850,000 00</u> |
| | <u>\$8,995,000 00</u> |

On December 31, 1951 the grain elevator renovation was completed. The railroad began paying rent on January 1, 1952, at a rate based on 3% of the cost plus interest on the bond issue to the completion date.

On the date of audit only the grain elevator has been completed and no substantial charges or contracts for construction of the pier have been arranged.

Bond Account, Boston Harbor Terminal Facilities Loan Fund: This fund was established by Chapter 714, Acts of 1941, and was transferred to the Port of Boston Authority by Chapter 619 of the Acts of 1945. Its purpose is to acquire the Mystic Wharves and build a pier and develop a water-front terminal.

The following is a summary of activities in this fund to June 30, 1952:

| | | |
|--|-------------------|-----------------------|
| Original Authorization | | \$4,700,000 00 |
| Transferred from Boston Harbor Facilities Loan Fund | | <u>1,300,000 00</u> |
| | | <u>\$6,000,000 00</u> |
| Total Bonds Authorized | \$6,000,000 00 | |
| Bonds not Issued | <u>460,000 00</u> | |
| Bonds Issued | | \$5,540,000 00 |
| Expenditures and Liabilities | | <u>5,409,933 76</u> |
| Balance | | <u>\$130,066 24</u> |

| | Expenditures | Encumbrances | Total |
|-------------------|-----------------------|---------------------|-----------------------|
| Purchase of Land | \$1,345,000 00 | - | \$1,345,000 00 |
| Personal Services | 147,259 72 | - | 147,259 72 |
| Expenses | 9,319 17 | \$ 544 60 | 9,863 77 |
| Contracts* | <u>3,458,578 16</u> | <u>449,232 11</u> | <u>3,907,810 27</u> |
| | <u>\$4,960,157 05</u> | <u>\$449,776 71</u> | <u>\$5,409,933 76</u> |

* Contracts:

| | | | |
|--|-----------------------|---------------------|-----------------------|
| Architectural and Engineering Services | \$ 126,379 31 | \$ 2,720 69 | \$ 129,100 00 |
| Submarine Pile Inspection | 4,360 00 | - | 4,360 00 |
| Test Boring | 3,805 28 | - | 3,805 28 |
| Driving and Testing Piles | 5,689 00 | - | 5,689 00 |
| Moving Field Office | 1,199 00 | - | 1,199 00 |
| Superstructures | 3,156,997 89 | 444,248 92 | 3,601,246 81 |
| Testing Materials | 7,260 06 | - | 7,260 06 |
| Furnishing and Installing Fire Nozzle Hatches in Deck | 10,654 68 | - | 10,654 68 |
| Substructure Repairs | 62,328 50 | - | 62,328 50 |
| Repairs to Heating and Plumbing System | 3,897 50 | - | 3,897 50 |
| Repairs to Exterior Doors | 4,953 19 | - | 4,953 19 |
| Repairs to Downspouts and Gutters | 1,446 00 | - | 1,446 00 |
| Dredging Berths Pier #1 | 44,896 60 | - | 44,896 60 |
| Plaque | 884 00 | - | 884 00 |
| Grading and Paving | 4,200 00 | - | 4,200 00 |
| Modification of Sprinkler System | 4,317 00 | - | 4,317 00 |
| Furnishing and Erecting Steel Wire Fence | 5,670 00 | - | 5,670 00 |
| Emergency Roof Repairs | 1,517 65 | 500 00 | 2,017 65 |
| Ship Water Supply Cabinets | 600 00 | - | 600 00 |
| Furnishing and Installing Fire Alarm System | 7,202 90 | 1,271 10 | 8,474 00 |
| Laying Asphalt Tile Floors | 319 60 | 56 40 | 376 00 |
| Relocation of Switches | - | 37 00 | 37 00 |
| Installation of Wire Grill Partition | - | 398 00 | 398 00 |
| | <u>\$3,458,578 16</u> | <u>\$449,232 11</u> | <u>\$3,907,810 27</u> |

Mystic Pier #1 Lease: This pier is now completed and on August 1, 1952 the Boston and Maine Railroad occupied the premises. The railroad commenced paying rent as of August 9, 1952 on a rental based on a rate of 3% of the construction costs of \$5,726,625.17. This amount is to be incorporated in the terms of a twenty year lease now being negotiated.

It is noted that Piers numbered 48, 49 and 50 which were to revert to the Authority when Pier #1 was completed will be retained by the railroad for an additional six months at a rental which will be established after discussion between the interested parties.

Federal Funds: The General Services Administration of the Federal Government agreed to advance to this Authority the sum of \$43,987.50 to defray the cost of an original survey, investigation and preparations of preliminary plans on which detailed plans will be based for the development of the Castle Island Terminal in South Boston. This amount was received prior to this audit period. To date expenditures of \$30,250.00 have been made, leaving a balance of \$13,737.50. There were no expenditures from this fund during the audit period.

The Housing and Home Finance Agency Office of the Administration Community Facilities Services of the Federal Government also agreed to advance to this Authority the sum of \$118,900.00 to defray the cost of preliminary studies, reports, plans and outline specifications for the development of the Northern Avenue Waterfront facilities. In March of 1951, \$29,725.00 of this amount was received and since that date an additional \$89,175.00 was received. This entire amount of \$118,900.00 has now been expended.

Terminal Operators, Incorporated: On November 1, 1946, the Port Authority granted a permit to Terminal Operators, Inc., to operate the Castle Island Terminal for the handling of commercial cargoes.

Until June 30, 1948, under the terms of the lease the Port Authority was to receive 75% of the net income from operations of the terminal as rental.

A contract dated July 1, 1948 with this corporation provided as follows:

"To Pay the Port Authorities \$1,500.00 per month (base payments) and, in addition to make payments ... after making deductions hereinafter provided for ... equal to the percentages of net income as hereinafter defined, of the licensee from the use and operation of the premises for each full year in force ...

53% of the amount of such net income not in excess of \$60,000.00

58% of the amount in excess of \$60,000.00 but not in excess of \$70,000.00

65% of the amount in excess of \$70,000.00 but not in excess of \$80,000.00

75% of the amount in excess of \$80,000.00"

Under this agreement the following income was reported to the Authority by the corporation July 1, 1951 to June 30, 1952:

| | |
|---|--------------------|
| Total Revenue by Terminal Operators, Inc. | \$154,628 83 |
| Less: | |
| Expenses | 110,589 43 |
| Net Income | <u>\$44,039 40</u> |

On this basis of total net income of \$44,039.40 received by the corporation, rent computation in accordance with the contract was as follows:

| | Total Net Income | Rent Due to Port of Boston Authority |
|-----|---------------------|--|
| 53% | <u>\$44,039 40</u> | <u>\$23,340 88</u> |

Information with respect to the foregoing was made available by the Terminal Operators, Incorporated, at their offices.

It was noted that the total revenue from this source decreased from the previous fiscal period by approximately 57%. It is understood that this was occasioned because fewer ships used the facilities due to labor difficulties along the North Atlantic Seaboard.

Attention is called to the fact that the foregoing amounts do not include unpaid billings for the years 1950 to date totaling \$12,724.20, and unpaid and unbilled items totaling \$11,476.30 for the years 1948 and 1949. These two amounts totaling \$24,200.50 are owed to the Terminal Operators, Incorporated by the New York, New Haven and Hartford Railroad for trackage and terminal facilities.

It is understood from the Director of this Authority that negotiations are in process

on an agreement with the New York, New Haven and Hartford Railroad to apply the same rates on the above trackage as received in their own agreement with the Port Authority.

Collection of these charges by the Terminal Operators, Incorporated will, of course, result in additional revenue to the Authority.

Accounts Receivable - New York, New Haven and Hartford Railroad - Rental: The previous audit report noted that the agreement for rental of the Commonwealth Yards had expired and a new lease was in the process of negotiation. Since that date a new agreement has been executed and payments of \$23,750.00 have been made in accordance with the agreement.

Trackage: An original agreement dated July 1, 1912, was amended on December 12, 1952 subsequent to the date of the current audit retroactively increasing the trackage charges from ten cents to fifteen cents a ton on all goods taken by the New York, New Haven and Hartford Railroad to and from the South Boston piers from April 1, 1950. A total of \$22,038.89 has been received on this new agreement under date of December 31, 1952.

Castle Island Terminal: Transfer of the Naval Facility at Castle Island to the Port Authority has been authorized by the Congress of the United States and also by the General Court of this Commonwealth.

Construction authorized under Chapter 771 of the Acts of 1951 is not contemplated until a time subsequent to the deed for this property being received.

Sale of Land: In the period covered by the audit a lot of land on "C" Street in South Boston containing 12,068 sq. ft. was sold by the Authority for \$18,000.00. This lot was assessed at \$33,000.00 but was appraised at only \$18,000.00 by an independent appraiser.

STATE SUPERINTENDENT OF BUILDINGS

REPORT NO. 53-34

Assignment of Rooms in State House and Elsewhere: Section 10 of Chapter 8 of the Tercentenary Edition of the General Laws as amended by Section 4 of Chapter 249 of the Acts of 1938, and Chapter 440 of the Acts of 1943, referring to the Superintendent of Buildings, states:

"He shall, under the supervision of the governor and council and with the approval of the commission on administration and finance, assign the rooms in the state house and rooms elsewhere used by the commonwealth, and may determine the occupancy thereof in such manner as the public service may require ..."

In conformance with the foregoing statute, certain private service enterprises have been allotted rent-free space in the State House.

Advance Money: In this connection the previous audit report stated:

"It is suggested that all checks received for payment of the cleaners' pay rolls be entered in the cash book. In this connection it was noted that only one check, an advance on account of two weeks' pay roll was entered during the period covered by the audit."

It was noted that the foregoing suggestion has been complied with and now all such checks are being properly entered.

Personnel Not Bonded: The previous audit report suggested that the two employees who handle cash be bonded. In this connection it was noted that proper coverage has been obtained in these instances.

Accounts Receivable - Waste Paper: It was noted that sales made in the month of August 1952, still remaining unpaid on the date of audit, totaled \$41.71. In this connection it was noted that the sales are now being correctly billed and entered through the general ledger control accounts.

Rentals: The records in this department indicate that buildings, garages and other properties are rented by the Commonwealth at an approximate annual cost of \$1,599,920.00. Leases are filed in the office of the Superintendent of Buildings. The leases are approved by the Commission on Administration and Finance and the Governor and Council. A record of the lease is on file in the Comptroller's Bureau.

New Elevators - Passenger: It was noted that a contract was awarded to the lowest recorded bidder for the installation of ten new elevators, eight of which are in the State House and two of which are in the Ford Building. This contract was originally awarded to a general contractor for \$351,954.00, who at a later date submitted a proposal for four additional elevators to cost \$156,027.00. This entire contract together with architect's fees of approximately \$31,000.00 and estimated contingencies of \$26,019.00, a total estimated cost of approximately \$565,000.00, was approved by the Massachusetts Public Buildings Commission in that amount.

It was noted that there were twelve change orders for additions to the original contract, including the aforementioned proposal of \$156,027.00 for the four additional elevators totaling \$229,888.62 and one change order for a decrease in the amount of \$100.00. All these change orders were also approved by the proper parties, including the Massachusetts Public Buildings Commission.

It was further noted that the date of completion of this contract was extended from August 29, 1951 to October 21, 1952, and the collection of liquidated damages was waived in accordance with approvals by the proper authorities. It is understood that this contract was about two-thirds completed on the date of this audit.

In further connection with these elevators a letter from the Massachusetts Public Buildings Commission to the Superintendent of Buildings dated December 18, 1951 indicated approval for the purchase of thirty-two gongs and forty Gamewell auxiliary fire alarm stations for the new elevators at an estimated cost of \$8,940.00. It is understood that these items will be purchased through the State Purchasing Bureau.

New Elevators - Freight: It was also noted that a contract was awarded to the lowest bidder for the installation of a freight elevator in the State House. This contract was awarded to a general contractor for \$67,525.00 of which item No. 1 was for \$33,415.00 for general contracting and item No. 2 was for electrical and elevator work in the amount of \$34,110.00. In this case the architect's fees will total \$6,752.00. The entire estimated cost of \$74,277.00 was approved by the Massachusetts Public Buildings Commission.

Letter Contracts: Section 8A of Chapter 29 of the General Laws, provides in part for the posting of a notice inviting proposals on contracts involving amounts from one thousand to five thousand dollars. However, contracts under one thousand dollars are awarded after proposals received by letter. Included among these so-called letter contracts awarded during the period covered by the audit were fifty-five agreements with five contractors, totaling \$26,891.51.

DIVISION OF BANKS

REPORT NO. 53-35

Central Organization Fund: The balance in the Central Organization Fund on date of audit was \$1,312.92. There were receipts of \$242.84 and payments of \$5.25 during the current audit period.

Examination of Banking Institutions: Costs of examinations of trust companies, savings and loan associations, and Morris Plan Banks are paid by the banks concerned. Charges for examinations of co-operative banks, credit unions, and savings banks are based on a percentage of the assets of the institutions concerned and do not in every case cover the complete cost of the examination.

In the period from January 22, 1952 to September 12, 1952, the costs and reimbursements were as follows:

| | <u>Costs</u> | <u>Reimbursement</u> <u>Billings</u> | <u>Difference</u> |
|--------------------------------------|--------------|---|-------------------|
| Miscellaneous Financial Institutions | \$ 850 88 | \$ 850 88 | - |
| Savings and Loan Associations | 2,441 80 | 2,441 80 | - |
| Other Banking Institutions | 4,880 62 | 4,880 62 | - |
| Credit Unions | 47,103 33 | 17,874 46 | \$29,228 87 |

| | | | |
|--------------------|---------------------|---------------------|--------------------|
| Trust Companies | \$109,017 23 | \$109,017 23 | - |
| Co-operative Banks | 114,403 03 | 106,511 11 | \$ 7,891 92 |
| Savings Banks | 173,900 04 | 131,781 03 | 42,119 01 |
| | <u>\$452,596 93</u> | <u>\$373,357 13</u> | <u>\$79,239 80</u> |

METROPOLITAN DISTRICT COMMISSION

REPORT NO. 53-36

Permit for Binoculars on Observation Platforms: It was noted that a permit to a business organization to install and maintain coin-operated binocular machines at certain locations under the control of the Metropolitan District Commission expired on December 31, 1950. This same company however, operated this concession without a specific written permit for the calendar years 1951 and 1952, and rental payments were made to the commission under the same terms expressed in the permit which had expired on December 31, 1950. On October 10, 1952 a new permit was granted for the calendar year ending December 31, 1953.

Quabbin Reservoir Income: It was noted that the Quabbin Reservoir was opened to fishing from boats on May 27, 1952. Fees are collected for the hire of boats, fishing permits, use of parking areas, etc. The collections are deposited in a local bank and copies of deposit slips are sent to the Boston offices weekly together with an accounting. In this connection the offices at the Windsor Dam of the Quabbin Reservoir were visited on September 18, 1952. A reconciliation of cash on hand indicated that \$160.00 of income cash had been withheld from deposit and was being used as a change fund at the three boating areas. In addition there was also on hand, \$1.05, received from the sale of gasoline that had not been deposited, and it was apparently intended to use this amount as a fund for minor purchases. It is suggested that these amounts as well as comparable amounts which will be henceforth received, should be handled as income, in compliance with existing statutes and directives. If advances are found necessary for change funds a request should be made through proper channels, but under no circumstances should income cash be withheld. It is also suggested that those employees at these locations handling state monies should be bonded.

Unrecorded Charge to Accounts Receivable: In accordance with the terms of a lease agreement the annual rental charge for a certain refreshment stand at City Point is \$1,300.00. It was noted, however, that no part of this charge had been brought onto the commission's books to September 15, 1952. In this connection at a meeting of the commission held July 10, 1952 it was voted to hold over until early September the amount of rental to be paid for the 1952 season and on September 18, 1952 the commission also voted that 50% of the rent due from the concessionaire for the year 1952, or \$650.00, be abated. It is also understood that road construction in front of the stand did not permit any business activities during week days, and also consequent damages to equipment and foodstuffs were allegedly suffered by the concessionaire.

This lease agreement stipulated that payments of \$325.00 each be made on the 17th days of June, July, August and September. In the future in handling similar cases these charges should be made on the accounts receivable records when they become due, and abatements should be subsequently entered when properly authorized. In this manner the accounts receivable account will correctly reflect amounts due at all times.

Nantasket Hotel and Tivoli Shelter: It was noted that the commission terminated its leases on April 17, 1952 with the Nantasket Hotel and Cafe and the Tivoli Shelter concessions at Nantasket Beach Reservation because of failure to pay arrearages in rentals on the leases totaling \$30,127.03. Since that date the entire matter was referred to the Attorney General for collection. To date of audit this amount which represents this balance was still outstanding and represents arrearages in rentals for the 1949, 1950, and 1951 seasons which had not been paid.

In connection with the foregoing attention is called to the fact that this commission experienced similar difficulties in collecting rental arrearages in the past. A previous report issued by the Department of the State Auditor indicated that a loss of \$39,609.95 was incurred by the commission and was charged off as uncollectible in accordance with the approval given in the following letter:

COPY

December 23, 1940

Hon. Eugene C. Hultman, Commissioner
Metropolitan District Commission
20 Somerset Street, Boston

Dear Sir:

The receipt of your letter of December 20, relative to an unpaid balance in the rental account for the Nantasket Hotel for the years 1932 - 1933 - 1934, is acknowledged.

This office, in view of the circumstances and your belief that no part of the unpaid balance can be collected, approves your recommendation and authorizes a cancellation of the unpaid balance of the rental in the sum of \$39,609.95.

Very truly yours,

/s/ WALTER W. O'DONNELL
Assistant Attorney General

It is now noted that the commission has taken steps to avoid recurrences of these situations on these concessions by stipulating in new leases that payments be made in advance for each season. If comparable steps had been taken as the result of the experience when the first loss occurred in 1940, the commission obviously would not have been in the present position of possibly incurring another substantial charge-off.

Pay Roll Check Endorsements: When the weekly pay roll checks are prepared they are sent to the various divisions, etc., for distribution. In connection with this audit a test examination of these weekly pay roll checks was made and it was noted that several checks in one section carried two endorsements. When these endorsements were compared it was obvious that the same person had signed the original endorsements on several of these checks. This matter was discussed with the director and a superintendent of the Parks Division, and it was learned that in certain instances checks are endorsed by one person, who takes them to a bank where they are cashed. The proceeds are subsequently properly distributed. According to the superintendent, this procedure is followed as a convenience for the employees.

It is, however, suggested that this procedure is not good as it could inconvenience several employees indirectly, and it also confuses auditing procedures. This practice of permitting a person other than the payee to endorse checks should be discontinued immediately.

Purchase of Land in Brighton District: Chapter 660 of the Acts of 1950 provided for extension of the city tunnel section of the Hultman Aqueduct and in this connection it was proposed to construct a shaft in Brighton at the junction of Soldiers Field Road and Western Avenue on land which was jointly owned by two individuals. In this connection, the following is an excerpt from the report of the Chief Engineer of the Commission to the Commissioner dated January 24, 1952:

"In considering a taking of the entire parcel, some thought might be given to an outright sale to the Commonwealth. According to the appraisers' reports, the property was purchased in December, 1949, by Mssrs. ---- and ---- from ---- at a price of \$225,000.00, or 32 1/2 cents per square foot. It was assessed by the City of Boston in

1949 for \$133,000
1950 for 133,000
1951 for 200,000"

Attention is directed to the fact that apparently in conformance with the foregoing on January 31, 1952 the commission voted to offer to the owners \$258,532.00 for the

property, which was rejected. Negotiations continued. The following offer was made by the commission as recorded in the minutes of June 12, 1952 and was accordingly accepted on June 19, 1952:

"VOTED that an offer be made to --- and --- of the sum of Three Hundred and Fifty-seven Thousand Five Hundred Dollars (\$357,500) for approximately 695,389 square feet of land bordered by Cambridge Street, Soldiers Field Road and Western Avenue in the Brighton District of the City of Boston, shown as Parcels A-B-C and D on Construction Division Plan Accession No. 54208, as a site for Shaft 8 of the City Tunnel Extension.

It was further VOTED that the said --- and --- be granted an option to repurchase approximately 673,667 square feet of said land, described as Parcels B-C and D on said Plan Accession No. 54208 for the sum of Three Hundred Fifty-seven Thousand Five Hundred Dollars (\$357,500), provided that said option is exercised within a period of ninety (90) calendar days after notice from the Commission that the construction of the project for which the land will be required, has been completed."

At a meeting of the Governor and Council on August 20, 1952 it was, however, voted to disapprove acquisition of this land by purchase in accordance with the terms of the unanimous vote of the Metropolitan District Commission and it was recommended that said land be taken by other means. As a result, the commission instituted proceedings to take this land by eminent domain despite the fact that it already had acquired title. As of the date of this audit no payment has been made for the land and the matter was before the Courts where suit had been brought to recover the alleged agreed sales price.

Contracts: It was noted, in two instances, that contracts had been awarded to others than the lowest bidders as follows:

Contract #185: This was awarded to the second lowest bidder:

| | |
|-------------------|-------------|
| Lowest Bid | \$91,172 50 |
| Second Lowest Bid | 91,350 00 |

The chief engineer recommended that the second lowest bidder be given the award and gave as his reason that the lowest bidder is a newly organized concern, whereas the second lowest bidder has a better financial status and has performed satisfactory work of this nature in the past.

Contract #194: This contract was also awarded to the second lowest bidder despite the fact that the chief engineer and the two associate commissioners are recorded in favor of an award to the lowest bidder.

| | |
|-------------------|------------|
| Lowest Bid | \$5,019 15 |
| Second Lowest Bid | 5,205 40 |

In his letter to the commissioner dated January 3, 1952 the chief engineer in indicating his recommendation for the award stated that the lowest bidder had done similar work for the U. S. Government and he had learned that its work was not entirely satisfactory. However, because of the relatively small size of the contract he recommended the award be made to the second lowest bidder.

Attention is also directed to Contract #186 which called for the construction of a 48 inch pipe line connection for the Blue Hills Reservoir in the cities of Boston and Quincy and the town of Milton. This contract was awarded on December 16, 1949 to the lowest bidder for \$1,586,513.05. On March 3, 1950 this contract was assigned to another contractor and was approved by the bonding company and the commission. In May 1951, this second contractor advised the commission that his company was in serious financial condition and on December 12, 1951 the chief engineer of the commission indicated to the commissioner that the progress of the work on this particular contract was unsatisfactory and unreasonably delayed. The commission consequently on December 14, 1951 notified the contractor to discontinue all work on this contract in accordance with Article XX of the contract, and advised the bonding company of this action. Soon thereafter this contractor was declared a bankrupt and the bonding company again took steps to arrange for its completion. It was learned that

the work on this pipe line connection is now proceeding under a contract known as "Exhibit A" between the bonding company and a third contractor. This new contract calls for completion within 250 days from July 14, 1952. It is worthy of mention that the completion of this contract will have been delayed for a period in excess of two years from the date specified in the original contract.

Contract Overruns: An examination was made of the larger contracts which had been completed during the period under audit, and it was noted in several instances that there were substantial differences between the required estimated costs of these projects and their final actual costs.

In this connection it was noted that on 62 of the contracts which were completed during the period under audit, each of which was in excess of \$5,000.00, there was included extra work orders in amounts aggregating a net of \$521,591.99, overruns amounting to \$757,621.39 and underruns amounting to \$181,556.41 were noted. In this connection a complete study was made of contract #645 and it was found that although the original estimated cost of this contract was \$436,837.58, its actual cost was \$750,144.68 due to extra work orders and overruns. This difference of \$313,307.10 was 72% more than the original contract. The details follow:

| Contract #645 | | | | | | | | | | | | |
|---------------|--|-----------|----------|------------|-------------|------------|-------------|----------|-------------|--------|-------------|----------|
| | | Unit | | Estimated | Estimated | | Actual | Actual | Overruns | | Underruns | |
| | | Contract | | Quantities | Contract | Actual | Contract | Contract | Unit | Value | Unit | Value |
| | | Value | | | Agreement | Quantities | Price | | | | | |
| 1 | Removing Trees | Each | \$ 30 00 | 90 | \$ 2,700 00 | 126 | \$ 3,780 00 | 36 | \$ 1,080 00 | - | - | - |
| 2 | Clearing and Grubbing | Sq. Yd. | 20 | 2,500 | 500 00 | 5,006 | 1,001 20 | 2,506 | 501 20 | - | - | - |
| 3 | Loam Excavated and Placed | Cu. Yd. | 25 | 1,500 | 3,750 00 | 3,500 | 875 00 | - | - | 11,500 | \$ 2,875 00 | - |
| 4 | Trench Excavation | Cu. Yd. | 1 30 | 1,600 | 2,080 00 | 2,577 | 3,350 10 | 977 | 1,270 10 | - | - | - |
| 5 | Earth Excavation | Cu. Yd. | 4 00 | 10,000 | 40,000 00 | 8,927 | 35,708 00 | - | - | 1,073 | 4,292 00 | - |
| 6 | Excavation for Structures | Cu. Yd. | 6 00 | 1,860 | 11,160 00 | 19,673 | 118,038 00 | 17,813 | 106,878 00 | - | - | - |
| 7 | Masonry Excavation | Cu. Yd. | 8 00 | 200 | 1,600 00 | 290 | 2,320 00 | 90 | 720 00 | - | - | - |
| 8 | Cement Concrete Walks and Driveways (Remove) | Sq. Yd | 40 | 2,800 | 1,120 00 | 2,175 | 870 00 | - | - | 625 | 250 00 | - |
| 9 | Piles Cut off or Pulled | Each | 4 00 | 150 | 600 00 | 314 | 1,256 00 | 164 | 656 00 | - | - | - |
| 10 | Construction and Removal of Coffor Dams | Lump Sum | - | - | 10,000 00 | - | 5,000 00 | - | - | - | - | 5,000 00 |
| 11 | Piles | Lin. Ft. | 1 00 | 33,765 | 33,765 00 | 5,046 | 5,046 00 | - | - | 28,719 | 28,719 00 | - |
| 12 | Batter Piles | Lin. Ft. | 1 00 | 7,650 | 7,650 00 | 3,199 | 3,199 00 | - | - | 4,451 | 4,451 00 | - |
| 13 | 3" x 8" Wooden Pile Girder Caps | M Bd. Ft. | 300 00 | 6M | 1,800 00 | - | - | - | - | 6M | 1,800 00 | - |
| 14 | 2" Plank Platforms | M Bd. Ft. | 220 00 | 15M | 3,300 00 | - | - | - | - | 15M | 3,300 00 | - |
| 15 | Ordinary Borrow | Cu. Yd. | 90 | 50,000 | 45,000 00 | 40,629 | 36,566 10 | - | - | 9,371 | 8,433 90 | - |
| 16 | Gravel Borrow | Cu. Yd. | 1 50 | 5,200 | 7,800 00 | 24,831 | 37,246 50 | 19,631 | 29,446 50 | - | - | - |
| 17 | Concrete Masonry | Cu. Yd. | 27 00 | 6,941 | 187,407 00 | 8,744 | 236,088 00 | 1,803 | 48,681 00 | - | - | - |
| 18 | Reinforcing Steel | Lb. | 09 | 232,962 | 20,966 58 | 489,000 | 44,010 00 | 256,038 | 23,043 42 | - | - | - |
| 19 | Seam Faced Granite Facing | Sq. Ft. | 7 00 | 2,527 | 17,689 00 | 4,268 | 29,876 00 | 1,741 | 12,187 00 | - | - | - |
| 20 | Granite Copying Stones | Lin. Ft. | 17 00 | 370 | 6,290 00 | 364 | 6,188 00 | - | - | 6 | 102 00 | - |
| 21 | Granite Parapet Stones | Lin. Ft. | 10 00 | 78 | 780 00 | 74 | 740 00 | - | - | 4 | 40 00 | - |
| 22 | Rip Rap | Sq. Yd. | 4 00 | 1,000 | 4,000 00 | 667 | 2,668 00 | - | - | 333 | 1,332 00 | - |
| 23 | Duplex Unit | Lump Sum | - | - | 2,000 00 | - | 2,000 00 | - | - | - | - | - |
| 24 | 12" Concrete Pipe | Lin. Ft. | 3 00 | 70 | 210 00 | 49 | 147 00 | - | - | 21 | 63 00 | - |
| 25 | 15" Concrete Pipe | Lin. Ft. | 4 00 | 600 | 2,400 00 | 474 | 1,896 00 | - | - | 126 | 504 00 | - |
| 26 | 18" Concrete Pipe | Lin. Ft. | 6 00 | 40 | 240 00 | - | - | - | - | 40 | 240 00 | - |
| 27 | Catch Basins | Each | 100 00 | 37 | 3,700 00 | 19 | 1,900 00 | - | - | 18 | 1,800 00 | - |
| 28 | Manholes | Each | 100 00 | 5 | 500 00 | 12 | 1,200 00 | 7 | 700 00 | - | - | - |
| 29 | Removal of Brick House under Harvard Bridge | Lump Sum | - | - | 700 00 | - | 700 00 | - | - | - | - | - |

| | | | | | | | | | | | | | | | |
|----|--|----------|---------|-------|----|--------------|-------|----|--------------|-------|----|--------------|----|----------|-------------|
| 30 | Removal of Railing | Per Boy | \$25 00 | 10 | \$ | 250 00 | 6 | \$ | 150 00 | - | - | 4 | \$ | 100 00 | |
| 31 | Basins Removed | Each | 20 00 | 24 | | 480 00 | 14 | | 280 00 | - | - | 10 | | 200 00 | |
| 32 | Removal of Wooden Stairs | Lump Sum | - | - | | 200 00 | - | | 200 00 | - | - | - | | - | |
| 33 | 12" Cast Iron Pipe | Lin. Ft. | 10 00 | 52 | | 520 00 | 45 | | 450 00 | - | - | 7 | | 70 00 | |
| 34 | 10" Vitrified or Concrete Pipe | Lin. Ft. | 1 50 | 2,400 | | 3,600 00 | 2,188 | | 3,282 00 | - | - | 212 | | 318 00 | |
| 35 | 4" Cast Iron Water Pipe | Lin. Ft. | 4 00 | 400 | | 1,600 00 | 1,023 | | 4,092 00 | 623 | \$ | 2,492 00 | - | - | |
| 36 | Removing and Relaying 4" Cast Iron Water Pipe | Lin. Ft. | 3 00 | 1,320 | | 3,960 00 | 288 | | 864 00 | - | - | 1,032 | | 3,096 00 | |
| 37 | Luminaires Relocated | Each | 90 00 | 9 | | 810 00 | 5 | | 450 00 | - | - | 4 | | 360 00 | |
| 38 | 6 - 5000 Volt Cable | Lin. Ft. | 50 | 3,200 | | 1,600 00 | 3,500 | | 1,750 00 | 300 | | 150 00 | - | - | |
| 39 | 6 - 600 Volt Cable | Lin. Ft. | 50 | 3,800 | | 1,900 00 | 3,700 | | 1,850 00 | - | - | 100 | | 50 00 | |
| 40 | 4" Duct | Lin. Ft. | 80 | 2,500 | | 2,000 00 | 4,055 | | 3,244 00 | 1,555 | | 1,244 00 | - | - | |
| 41 | Hand Holes | Each | 30 00 | 7 | | 210 00 | 6 | | 180 00 | - | - | 1 | | 30 00 | |
| | | | | | | \$436,837 58 | | | \$598,460 90 | | | \$229,049 22 | | | \$67,425 90 |

Extra Work Orders to Contract

1. A. Furnishing, fabricating and installing copper seals at \$1.25 per lb.
- B. Furnishing, placing and compacting crushed or washed gravel stone at \$4.50 per ton
- C. Furnishing, placing and later removing temporary fence at \$1.80 per lineal foot
- D. Construction Concrete Catch Basins at \$250.00 each
2. Pumping extra amount of water flowing from under drains of the existing Boston Marginal conduit, building sump of steel sheeting, installing copper water stops and placing concrete plug seal about 60 ft. west of Harvard Bridge
3. Replacing approximately 40 lin. ft. of wood box culvert with a reinforced concrete culvert between the Boston Marginal conduit and Back St. at the unit price of \$400.00 per lin. ft., complete in place. Removing approximately 45 lin. ft. of wood box culvert between Boston Marginal conduit and the retaining wall on the basin side at the unit price of \$190.00 per lin. ft. of culvert removed. The above work at Hereford St. includes the furnishing of all materials and all work incidental thereto as shown on plan #29259x

| Estimated Contract Agreement | Actual Contract Price | Overruns | Underruns |
|------------------------------------|-----------------------------|-------------|-----------|
| \$ 11,010 00 | \$ 12,010 00 | \$ 1,000 00 | - |
| 3,850 00 | 3,850 00 | - | - |

| | | | | | |
|-----|---|---------------------|---------------------|---------------------|--------------------|
| 4. | and as directed by the engineer Excavation and disposal of poor or unstable material below the elevations of the bottom of the concrete roadway mats as finally constructed and below the roadways outside the limits of the contract mats. Estimated amount 5,000 cu. yds. at \$13.00 per cu. yd. Additions and changes under requirements of Chapter 262, Acts of 1949 | \$ 24,550 00 | \$ 24,550 00 | - | - |
| 5. | For forming, bracing and stripping forms for concrete roadways slabs, where forms were not required for the construction shown on the contract plan, including all labor, tools, materials and equipment, at a lump sum price of \$3,100.00 For furnishing, placing and finishing approximately 415 cu. yds. of concrete for cantilever retaining walls not required or shown on contract plans, complete in place, at a lump sum price of \$10,167.50 For forming, bracing and stripping approximately 20,750 sq. ft. of forms for concrete retaining walls not required on contract plans, including all labor, tools, materials and equipment at a lump sum price of \$15,562.50 | 65,000 00 | 64,857 00 | - | \$143 00 |
| 6. | Removing by pulling or cutting, about 1,000 lin. ft. of 4" existing wood sheeting along each side of the Boston Marginal conduit at \$1.75 per lin. ft. of single row of sheeting | 28,830 00 | 28,830 00 | - | - |
| 7. | Constructing approximately 360 lin. ft. of temporary fence and bumper to protect roadway over Fens Pond bridge and approaches at \$2.78 per lin. ft. | 1,750 00 | 1,750 00 | - | - |
| 8. | Police detail for 1,000 hrs. @ \$2.00 per hr. during construction of traffic interchange for the James J. Storrow Memorial Drive near Harvard Bridge | 1,000 00 | 1,148 14 | \$ 148 14 | - |
| 9. | Furnishing and installing one type "M" weather proof meter cabinet, complete in place, with all necessary equipment and fittings and including all excavation and backfilling for its proper installation as approved by the engineer | 2,000 00 | 2,462 00 | 462 00 | - |
| 10. | For furnishing 2 - 8" pumps and labor in order to keep dry the southerly roadway of the James J. Storrow Memorial Drive under Harvard Bridge during a period roadway was opened to traffic prior to arrival of permanent pumps | 795 00 | 795 00 | - | - |
| 11. | For waterproofing and sealing joints in wall and invert of reinforced concrete through part of the James J. Storrow Memorial Drive under Harvard Bridge | 7,590 82 | 7,590 82 | - | - |
| 12. | For installing tile drains in gutters of the Storrow Memorial Drive under Harvard Bridge to intercept ground water seepage and prevent ice from forming on roadway | 2,111 12 | 2,111 12 | - | - |
| | | <u>1,729 70</u> | <u>1,729 70</u> | <u>-</u> | <u>-</u> |
| | Total Extra Work Orders | <u>\$150,216 64</u> | <u>\$151,683 78</u> | <u>\$1,610 14</u> | <u>\$143 00</u> |
| | Grand Total of Project | <u>\$587,054 22</u> | <u>\$750,144 68</u> | <u>\$230,659 36</u> | <u>\$67,568 90</u> |

Inventory at Glenwood Yard: In connection with the audit a test inventory of 78 items in the Glenwood Yard was taken on September 19, 1952. A comparison of the quantities on hand with the stock records maintained at the main office in Boston indicated several differences, many of which were quite large. It was learned that no complete inventory has been taken since 1937 by the commission. Since that date only minor clerical adjustments and corrections have been made on the inventory cards when variances were noted. While it is true that many of the items on hand are of great bulk and weight and cannot be moved easily, it is most important that the records be adjusted to reflect the correct quantities of items stored. It is therefore recommended that an inventory of all stock items be taken and the necessary adjustments be effected.

Theft of State Cash: A theft of state funds from a vault in the office of the financial secretary at 20 Somerset Street was reported by an assistant head bookkeeper who functions as cashier. The robbery was discovered on the morning of November 13, 1952, a short time after the vault had been opened by another employee. The amount of theft was determined by the assistant head bookkeeper to be \$763.00 of state cash. In addition to state cash certain personal funds belonging to employees which were also in the vault were allegedly stolen. The amount of cash shortage in the state accounts as determined by the bookkeeper was checked through examination of entries in the cash receipts book since the last bank deposit. There was, however, no method available to check the possibility of cash being on hand which may not have been recorded.

M. D. C. Police were notified of the theft by the financial secretary.

DIVISION OF MILK CONTROL

REPORT NO. 53-37

General: The previous audit report commented fully on difficulties existing between the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture occasioned by the passage of Chapter 791 of the Acts of 1950. This act, which was approved on August 16, 1950 with an "Emergency Preamble", transferred certain functions of the Milk Control Board relating to the Bonding of Milk Dealers to the Department of Agriculture. In this connection Chapter 421 of the Acts of 1939 was repealed, and the Milk Control Board turned over to the Department of Agriculture all its records and other information relative to the bonding of milk dealers. This same statute also transferred the personnel and the appropriations for their salaries to the Department of Agriculture.

The Milk Control Board was primarily created to protect the financial interests of certain Massachusetts milk producers, and included in its functions the Board regulates and audits prices paid milk producers. The Board is further responsible for the adequacy of the supply of fresh milk for consumers and dealers in the areas within the Commonwealth, and under its control.

In this connection the Milk Control Board Inspectors audit the records of certain producers and dealers.

The Milk Control Board, on the date of this audit employed eleven individuals in its auditing sections as follows:

| | |
|---------------------------------------|-----------|
| Supervising Inspector of Milk Records | 1 |
| Senior Inspectors of Milk Records | 3 |
| Inspectors of Milk Records | 4 |
| Milk Control Investigators | 3 |
| | <u>11</u> |

As nearly as could be determined the main purposes of the auditing section are to determine whether the milk dealers buying from Massachusetts producers are properly accounting and paying for milk purchased in accordance with the official orders of the Milk Control Board and includes the following functions:

1. Conformity to price regulations
2. Satisfactory payments to producers when due
3. Adequacy of bond protection
4. Correctness of assessment payments

These auditors physically inspect and verify all payments of the milk dealers to producers within their jurisdiction. Items in transit are verified in subsequent audits. Determination of the adequacy of a bond is wholly dependent upon payment to producers.

From the foregoing it is, of course, obvious that sections of the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture have certain common purposes. This condition is covered by the common and duplicating laws and regulations which are indicated by Section 42H of Chapter 94 and Section 6 of Chapter 94A of the General Laws (Ter. Ed.). These laws have served to confuse the personnel administering them and also those milk dealers and milk plant operators for the benefit of whom the laws were originally put into effect.

Transfer of Certain Functions: Attention is called to the fact that the control accounts of the secured notes and surety bonds, savings accounts assigned, life insurance policies and real estate mortgages assigned, were transferred from the Milk Control Board to the Department of Agriculture in accordance with a letter of instructions from the Comptroller's Bureau dated November 14, 1950. In this connection previous audit reports have commented as follows:

"In view of the foregoing the following are suggested for study in order that better efficiency will prevail:

1. That the Milk Control Board assume all the functions of the Dairy Bonding Section.
2. That the Milk Control Board and the Dairy Bonding Section both come under the active control of the Department of Agriculture.
3. Administration and office procedure should be established where the functions of the Milk Control Board and the Bonding Section of the Department of Agriculture could be more closely co-ordinated so that the administration of the Milk Control Laws would be more closely integrated."

As no change has taken place in these matters, the foregoing suggestions are again offered for consideration.

Milk Dealers Operating Without Bonds: An audit of the Dealers Audit Ledger indicated that as of September 16, 1952, there were twenty-two milk dealers purchasing milk from Massachusetts producers and operating milk plants in State-controlled areas without the necessary bond coverage. This appears to be in direct violation of Section 42A of Chapter 94 of the Tercentenary Edition of the General Laws. These milk dealers, with one exception, had been issued milk dealers' licenses for the fiscal year ending June 30, 1953, despite the fact that the Board's records indicated that twenty of them had been operating milk plants without bond coverage since March 1, 1952. The records further indicate that on March 12, 1952 a list of all milk dealers purchasing milk from Massachusetts producers and operating milk plants in State-controlled areas, including the aforementioned twenty dealers, was submitted to the Dairy Bonding Section of the Department of Agriculture which has the responsibility for bonding all milk dealers operating plants in Massachusetts. During the course of the current audit, it was noted that the Board, which issues licenses to all milk dealers in the state, had no information as to the bonds of milk dealers operating in Federal-controlled areas. This fact was brought to the attention of the Chairman of the Board who indicated that this information has been a subject of controversy between the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture, and this latter section has been reluctant to furnish any information to the Board on milk dealers in Federal-controlled areas. On October 16, 1952, the Milk Control Board finally obtained from the Bonding Section a list of the milk dealers operating plants in Federal-controlled areas together with the amounts of their respective bonds. This list when checked against the Board records proved that four milk dealers in Federal-controlled areas were purchasing milk from Massachusetts producers and operating plants without bond coverage. Section 6, Paragraph 10, Chapter 94 of the Tercentenary Edition of the General Laws gives the Board the right to invoke action against any dealer whose bond or other evidence of financial responsibility is unsatisfactory to the Board.

Insufficient Bond Coverage: An examination of the records of audits made by Milk Control Board Inspectors of the accounts of milk dealers in State-controlled areas indicated that sixteen licensed milk dealers with insufficient bond coverage were operating milk plants as of the date of audit. The bond deficiencies aggregated \$12,671.08 and include two large items, one for \$4,986.42, and the other for \$4,154.50. Notwithstanding

the fact that Section 6 of Chapter 94A of the Tercentenary Edition of the General Laws provides for remedial action that can be taken against such dealers, the Milk Control Board records failed to indicate that any legal action was pending against any of the above milk dealers for inadequate bond coverage.

Lack of Co-ordination: The abnormal number of dealers buying milk from Massachusetts producers and operating plants in Massachusetts without any bond coverage or insufficient bond coverage since March 1, 1952 without incurring legal action from either the Milk Control Board or the Dairy Bonding Section of the Department of Agriculture indicates that little or no co-ordination exists between these two divisions within the Department of Agriculture. Proper action should have been taken against these dealers by the Milk Control Board under authority of Section 6, Paragraph 10 of Chapter 94A of the Tercentenary Edition of the General Laws or by the Commissioner of Agriculture under authority of Section 42-H, Paragraph 3 of Chapter 94 of the Tercentenary Edition of the General Laws. The continued lack of co-operation between these two divisions serves only to undermine the confidence and respect which the majority of milk dealers have for the laws of the Commonwealth. It is, therefore, suggested that these two agencies promptly take the necessary steps to inform each other, at regular intervals, of any changes in status or of other vital information concerning milk dealers whose operations are of mutual concern to the functions and responsibilities of both the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture.

Field Audits: An examination was made of the records of audits performed by the field audit staff of this Board during the current audit period and it was noted that less than one third of the milk dealers located in the State-controlled areas are audited regularly, as is shown by the following schedule:

| | | |
|--|------------|------------|
| Number of Active Dealers in State-Controlled Areas as of September 16, 1952 | | <u>785</u> |
| Classification as to Licenses: | | |
| \$5.00 | 567 | |
| 2.00 | 72 | |
| .50 | 90 | |
| Pending Licenses | 54 | |
| | <u>783</u> | |
| Dealers not Licensed - Applications not Received | 2 | <u>785</u> |
| Classification as to Dealers Audited: | | |
| Number of Dealers Audited | 251 | |
| Number of Dealers not Audited | 534 | <u>785</u> |

In connection with these audits, it is understood that those now made are of milk dealers who purchase milk from Massachusetts producers and who sell less than 10% in Federal-controlled areas. The records of these dealers are audited for conformity to producer price regulations, producer payments made within agreement periods and proper assessment payments to the Board. Except for special field audits, no assessment audits are made of the other milk dealers in the State areas. The reason advanced for not making these audits on all dealers in State-controlled areas was insufficient personnel.

A test check made of the field audits performed in Federal-controlled areas by State Milk Control Board auditors during the current audit period indicated that of 572 milk dealers located in these areas only one milk dealer was audited for verification of assessment payments. This audit was made in conjunction with a dealer audit of a branch office located in a State-controlled area, the records of which were kept at the main office located in a Federal-controlled area.

The reason advanced for not making assessment audits on all dealers in Federal-controlled areas was inadequate operating funds. It is understood that under a pending memorandum of agreement between the Secretary of Agriculture and the Milk Control Board, it will be possible to obtain from Market Administrators in Federal-controlled areas milk sales reports on milk dealers in their areas. These reports will furnish sufficient information to the Board so that it may be determined that the dealers in the Federal areas are paying correct assessments. The Federal Government under this agreement would charge the Board a nominal fee for each milk dealer's report.

Delinquent Assessments: Monthly assessments payable by milk dealers under Section 9 of Chapter 94A of the Tercentenary Edition of the General Laws constitute the primary source of income for the Milk Control Board. For the fiscal year ended June 30, 1952, \$165,297.15 or 96% of the total income of the Board was received from this source. An examination of the assessment ledger indicated that 366 milk dealers were delinquent as of September 16, 1952, in the filing of the required monthly reports of milk sales nor have they paid the assessments due, as follows:

| <u>Number of Dealers</u> | <u>Months Delinquent</u> | <u>Total Assessments Due</u> |
|------------------------------|--------------------------|----------------------------------|
| 148 | One Month | 148 |
| 110 | Two Months | 220 |
| 69 | Three Months | 207 |
| 35 | Four Months | 140 |
| 3 | Five Months | 15 |
| 1 | Seven Months | 7 |
| <u>366</u> | <u>Totals</u> | <u>737</u> |

In addition to the foregoing, it was noted that one milk dealer who is subject to filing and paying monthly assessments had failed to file his monthly assessment reports for the period from February 1, 1949 to August 31, 1952. The Board has filed a complaint against this dealer in the Suffolk Superior Court for failure to comply with the statute concerning monthly assessments. On March 13, 1952, this dealer paid the sum of \$815.88 to the Clerk of the Suffolk Superior Court as a bond on the claim of the Board for assessments due the Commonwealth to November 30, 1949. This money will be paid to the Board if the court finds for the Commonwealth.

Unpaid Audit Assessments: It was noted there were outstanding balances totaling \$1,171.37 resulting from field audits of certain milk dealers' records. These balances involve 97 accounts with debit balances of \$1,680.43 and 120 accounts with credit balances of \$509.06 and include items applicable to the 1949 year. It was also noted that the balances of five milk dealers who are no longer in business were also included. In this connection, it is recommended that the Board review all accounts that have been outstanding for longer than one year and take steps to transfer them to the Department of the Attorney General for collection.

Arrearages to Producers: It was noted that nine active dealers were in arrears for payments to their producers in the amounts aggregating \$4,839.06.

The records of these dealers in the Dairy Bonding Section indicated that two of them owing \$1,368.51 were not bonded in an amount sufficient to cover their arrearages; six owing \$2,631.60 appeared to have bonds in excess of their arrearages; and one owing \$838.95 appeared to require no bond because his plant was located in another state.

As of the date of the previous audit, balances totaling \$649.95 were due to producers from four dealers who were no longer in business and whose bonds had been liquidated to meet producer obligations. As of September 16, 1952, only \$413.24 of these balances remained unpaid from two dealers. In this connection it was noted that payments of \$11.25 were made and a balance of \$225.46 due for milk purchased in 1944 was removed from the Board's records at the request of the producer because he preferred to handle the matter personally.

License Forms: It was noted that consecutively numbered printed license forms had not been issued by the Board in conformity with the instructions appearing on page 47 of the Comptroller's Bureau Accounting Manual. As a result, the auditing of the income received from milk dealers licenses needlessly involved a great deal more effort and time than is normally expended in this direction. This situation was brought to the attention of the Director of this division who agreed to make necessary adjustments and changes, effective with the issuance of license forms for the 1953 - 1954 fiscal year.

Dealers Not Licensed: The prior audit report indicated that 26 dealers who appeared on the active list as of October 22, 1951 had failed to pay their license fee for the 1951 - 1952 fiscal year. In connection with the current examination, it was noted that 21 of these dealers paid their overdue license fees during the current audit period, 3 went out of business prior to the 1951 - 1952 fiscal year, and the remaining 2 were

adjudicated by the Board not to be dealers as defined by Chapter 94A of the General Laws.

In connection with the 1952 - 1953 fiscal year license fees, it was noted that 7 milk dealers on the active dealers list as of September 16, 1952 had failed to pay their renewal fees. The required fees were, however, paid during the progress of this examination. In connection with the foregoing, Section 5 of Chapter 94A of the Tercenary Edition of the General Laws and the rules of this Board require all license renewal applications and fees for renewals to be made on or before June 15 of each year if the licensees wish to continue to engage in the milk business pending the action of the Board on their respective license applications for the license year beginning July 1st.

It is suggested, in the future, that strict compliance with this statute be effected.

License Before the Board for Statute Violations: The records for the current audit period indicate that there were 28 cases for violations of statutes for which licenses could have been revoked or applications for licenses denied. Of these 18 cases involved failures to pay producers and the remaining 10 involved failures to file assessment reports. These cases were in the following categories as of the date of audit:

| | |
|---|-----------|
| Licenses not Granted | 1 |
| Licenses Granted | 11 |
| Conditional Licenses Granted | 1 |
| Cases Involving License Revocations | |
| Charges were Filed | 7 |
| Cases Dismissed Account of Death of Dealers | 3 |
| Cases Pending Further Hearings | 5 |
| Total | <u>28</u> |

Milk Dealer's License - Date of Issue: The previous audit report directed comment to the fact that the date of issue was omitted from licenses issued to milk dealers. It was suggested at that time that the date of issue be recorded on the office copy of all licenses issued by the Board in order to facilitate the audit of income from licenses.

Inasmuch as the foregoing recommendation has not been followed, attention is again directed to it.

Milk Dealers' License Applications: The previous audit report noted that many license applications were not properly completed and that answers to many pertinent questions were omitted. This condition has been corrected to a certain extent by the issue of so-called Supplementary Application Forms to those dealers where the applications were found to be improper or incomplete.

Advances by State Treasurer: An examination of the advance fund transactions for this period indicated that advances to employees had been recorded in the cash book as fund disbursements and advances returned were recorded in the cash book as fund receipts. This practice is not in conformity with the instructions in the Comptroller's Bureau Accounting Manual. These facts were brought to the attention of the personnel and an adjusting entry of \$702.85 was made to bring the book balance, \$49.75, into agreement with the fund balance of \$752.60.

Monthly Assessment Reports: In examining the Monthly Reports of Milk Sales and the Assessments Due of milk dealers subject to Section 9 of Chapter 94-A of the General Laws, it was noted that one milk dealer in Area 2 had failed to submit any of these required reports for the period October 1, 1951 to August 31, 1952. It was further noted that eight checks totaling \$300.00 had been received on account of assessments from this milk dealer for this eleven-month period. This matter was discussed with the Director who indicated that immediate action would be taken to obtain the delinquent reports.

Cash Receipts: It was noted that certain milk dealers pay for licenses and for assessment fees with currency. At present, all employees of this Board who receive currency payments from dealers issue a consecutively numbered receipt from a standard receipt book. However, no receipts are issued for currency received by the Board through the mail. It is recommended that consecutively numbered receipts be issued for all cash received from dealers regardless of whether it is received by mail or in person.

Federal Control: For the period under audit there was no change either in the make-up of the control areas of cities and towns within jurisdiction of the State Board of Milk Control or the Federal Milk Market Administrators. On October 1, 1952, however, the Town of Bedford was transferred from Area 10-C, under State control to Area 17 which is under Federal control.

Milk Market Areas: This Board divided the Commonwealth into thirty-four Marketing Areas, of which four - Nos. 6-A, 8, 17 and 19-A are now under the control of Federal Milk Market Administrators. Another, No. 11-AB is controlled jointly by State and Federal agencies and is administered by a joint State-Federal Milk Market Administrator. A sixth area, No. 18 is regulated under a State Milk Control Board Order #G-18-205, as amended, and is administered by a State Milk Market Administrator. This area, which comprises the City of New Bedford, has been administered under a State Milk Control Board Order since April 1, 1940, and its administrator is appointed by the Milk Control Board. This area differs from the other areas controlled by the Milk Control Board in that it has a market wide pool which accounts for and pays for milk produced in this area. The membership of the pool is composed almost entirely of the members of the New Bedford Milk Producers Association, a producers co-operative bargaining association. It is a highly organized area and a homogeneous market because of the common interests of both producers and dealers. Except for the shortages during World War II, practically all milk sold in the area comes from within its borders. From 1934 to 1940 the area was administered under a Federal license. However, when the Federal Agency took into consideration that this was not a matter of interstate commerce, it ceased its control function. It differs from other State regulated milk market areas of the Commonwealth, as it is the only market wide pool area under State control. There are similar market wide pool areas in the states of New York, California and Oregon. The area was set up as a market wide pool because a substantial majority of the milk producers so petitioned the Milk Control Board.

The Milk Market Administrator representing this Board also functions as the Market Agent representing the milk pool producers. This official who does not receive any compensation from the Commonwealth is entirely compensated from funds derived from the State administered milk pool. The State Milk Control Board holds four surety bonds paid from producers' funds for the purpose of protecting the producers' funds in the custody of this official.

The accounts of the milk pool dealers in this area are not audited by State Milk Control Board Inspectors. All audits of these dealers are made by an inspector in the employ of the Milk Market Administrator of Area No. 18. An audit of the books of the New Bedford Milk Market Administrator (Area 18) is made annually by a State Milk Control Board Inspector.

DEPARTMENT OF MENTAL HEALTH

GENERAL DEPARTMENT

REPORT NO. 53-38

Cash Book: The previous audit report stated:

"Advances to employees are now being recorded in the cash book when they are made and also when returned. It is suggested that this practice be discontinued and the method suggested in the Accounting Manual of the Comptroller's Bureau be followed."

It was noted that this suggestion has been followed.

Journal Entries: The previous audit report stated:

"It is suggested that journal entries be signed and approved by the proper employees and that sufficient informative detail be appended so that it may be readily understood."

It was noted that this suggestion has been adopted.

Deposits of Income: The previous audit report stated:

"At present all departmental income is being deposited in the Second National Bank of Boston. At the end of each month a check is

drawn for the total income received during the month and deposited with the State Treasurer on a regular receipts voucher. Refunds of receipts are also being handled through this same bank account.

"It is suggested that this bank account be closed and all income be deposited daily with the State Treasurer on a regular receipts voucher. All refunds should be scheduled in the manner prescribed by the Comptroller's Accounting Manual."

It was noted that these suggestions have been followed.

Bonded Employees: The previous audit report stated:

"It was noted that the following positions are not bonded:

Second Assistant Commissioner

Business Agent

Administrative Assistant to the Commissioner,

Business Division

"It is suggested that steps be taken to provide bonds for the foregoing employees as they presently have authority to sign checks."

It was noted that this suggestion has been adopted.

Trust Fund Receipts: The previous audit report stated:

"During the current audit period, a check dated April 11, 1950, in the amount of \$582.19 was received from the Estate of Ellen P. Drew. This check was deposited in the income bank account and no identifying account was set up in the general ledger of the Department.

"As this item apparently is in the nature of a trust fund, it is suggested that it be transferred to the State Treasurer with a complete explanation, so that the proper accounting procedures may be initiated."

It was noted that this amount was paid to the State Treasurer October 17, 1951 and set up on the books as the "Sarah A. Drew Trust Fund", such trust fund being administered by the department as provided in the Tercentenary Edition of the General Laws, Chapter 123, Section 6.

The will of Sarah A. Drew provided that the portion of her estate to be paid to the Commonwealth of Massachusetts is "to be used for the care of the insane".

A memo signed by the Second Assistant Commissioner provides that expenditures shall be approved by him, but to date of audit none had been made.

Plans and Specifications: On date of audit numerous certified checks were listed, the dates of which varied from one to six months prior to the dates listed. The "Notice to Contractors" stipulates as follows:

"Contractors desiring to bid on this work must deposit a certified check in the sum of \$... to obtain plans and specifications, which will be refunded to those returning them in satisfactory condition within twenty days after the opening of bids."

It has not been the practice to follow this procedure. Checks have been returned to contractors regardless of whether or not the plans and specifications are returned within the required period of time.

It is, therefore, again recommended that the Department see that conditions as stated in the "Notice to Contractors" are complied with and that after the expiration of time indicated the certified checks be forfeited and sent to the State Treasurer as income.

Special Appropriations: It was noted that \$577,574.08 of Special Appropriations had as of June 30, 1952 been erroneously reverted to the Commonwealth according to the books of this department. This amount was, however, at a later date restored and the balance of the Special Appropriation accounts were then in agreement with the records of the Comptroller's Bureau.

The total unexpended balance of the Special Appropriations at June 30, 1952 was \$17,281,653.99. Of this amount, \$577,939.41 was unavailable for expenditures because the term of the appropriations had expired. Those appropriations which had been

authorized by Chapter 599 of the Acts of 1948 contained no provisions relative to the reversion of the unencumbered balances when the term of the appropriations expired.

It is recommended that legislative action be initiated to have these unencumbered balances revert to the Commonwealth because the money necessary to complete the projects involved has been provided in subsequent appropriations.

Contracts - Low Bids Not Acceptable: An examination of the contracts awarded during the period under audit indicated that six contracts were awarded to the second lowest bidders. The reasons given for these awards are as follows:

| <u>Contract</u> | <u>Lowest Bid</u> | <u>Second Lowest Bid</u> | <u>Reason for Rejection</u> |
|---|-------------------|------------------------------|--|
| Medfield State Hospital, Fire Protection, Alter- ations and Additions | \$100,830 00 | \$101,585 00 | Lowest bid rejected as being incomplete. Bid did not include sub-bids for painting, plumbing, heating and ventilating and electrical work |
| Taunton State Hospital, Fire Protection, Piping and Structures | 49,500 00 | 67,798 00 | The proposal of the lowest bidder included a sub-bid which had been incorrectly figured. Lowest bid asked that he be allowed to withdraw his bid |
| Westborough State Hospital, Durfee Colony Improve- ments | 45,231 00 | 45,900 00 | Sub-bid figures used by lowest bidder in his proposal differed from sub-bid proposals submitted to the Department by the sub-contractor. In case of such discrepancy, the latter proposal prevails |
| Monson State Hospital, Plumbing Improvements | 96,173 00 | 96,853 00 | Electrical sub-bid of lowest bidder was incomplete. By using the next available electrical sub-bid, the lowest bidder's proposal then exceeded the proposal of the second lowest bidder |
| Myles Standish State School, Industrial Shops | 416,000 00 | 419,900 00 | The selection of the alternate specifications on one item reduced the proposal of the second lowest bidder so that he became the lowest bidder. The adjusted low bid was \$413,007.40 |
| Myles Standish State School, Drainage System | 16,486 5 | 18,400 00 | Contract was not signed and bond was not furnished within ten days after the date of notification of the award by the Department |

Numbering of Contracts: It is recommended that all contracts be serially numbered when awarded in order to maintain more efficient control.

Acceptance of Construction Contracts: It is also recommended that the architect and the superintendents of the respective institutions notify the department by letter of the completion of each project. These letters should be kept on file with the letter of acceptance by the department.

Patients' Wage Fund: In connection with patients working outside for wages, it was noted that certain expenditures by employers for the benefit of patients could not be verified. It is suggested that receipts be furnished by the employer to the Department.

Accounts Receivable - Patients' Wages: The previous audit report contained a recommendation to the effect that a trial balance of the patients' wage cards be taken monthly and reconciled with the control account in the general ledger. It was noted that this is now being done.

Accounts Receivable - Institution Income: The previous audit report stated:

"It is recommended that a Suspense Accounts Receivable Account be set up in the general ledger. The balance of this account should represent the accounts in the hands of the Attorney General for collection as suggested in the Comptroller's Bureau Accounting Manual."

As this suggestion has not been complied with, attention is again called to it.

Institution Income - Accounts Receivable with Attorney General for Collection: The previous audit report stated that difficulty was experienced in cross checking the accounts with the Attorney General for collection as shown by departmental records with the records in the office of the Attorney General and recommended:

". . . that an effort be made to establish an accurate list of all accounts in this category and that it be submitted forthwith to the Office of the Attorney General so that necessary collection routines may be effected."

It was noted that this has been done and the records as shown by the two departments were readily cross checked as to name. In many cases, however, the amount as shown by the records in the department was in excess of the amount shown by the records in the office of the Attorney General on the corresponding account - the reason for the variances in amounts being that the department continues setting up the charge and rendering bills in the current accounts even though they are with the Attorney General. The Attorney General notifies the department when he is ready to proceed with a case and the record relating to the case is then brought up to date.

As of August 31, 1952, there were 158 accounts with the Attorney General for collection having a book value according to the records in the department of \$329,811.09.

Accounts Receivable, Board of Patients - Verification Notices: On September 1, 1952, there were approximately 10,000 open accounts receivable relating to the board of patients in the several mental health hospitals, of which about 5,000 include current charges.

Verification notices were mailed to the person responsible, as shown by the records, for the board of patients on 1,091 of the unpaid accounts as of September 1, 1952. Of these, 50 were returned by the Post Office as being unable to deliver and 65 were returned with questions, comments, etc. These were checked and letters of explanation written where necessary.

Overcharges - Accounts Receivable, Board of Patients: Included in the 65 verification notices returned with questions, comments, etc. were 19 where the responsible person concerned contended that the amount due as shown on the notice was in excess of the proper charge. These were traced and it was found that the overcharges were due to failure to note in the records termination of hospitalization due to death or discharge and the department adjusted the accounts accordingly.

A list of such cases follows:

| <u>Patient's Number</u> | <u>Date of Admission</u> | <u>Date of Discharge</u> | <u>Correct Charge</u> | <u>Charge per Records</u> | <u>Overcharge Adjusted</u> |
|-----------------------------|------------------------------|------------------------------|---------------------------|-------------------------------|--------------------------------|
| Boston State Hospital: | | | | | |
| 52,585 | 10/31/51 | 11/30/51 | \$ 42 86 | \$ 437 18 | \$ 394 32 |

Boston State Hospital (Cont.):

| | | | | | |
|--------|---|---------|----------|-----------|-----------|
| 52,696 | - | 1/26/52 | \$ 50 03 | \$ 375 74 | \$ 325 71 |
|--------|---|---------|----------|-----------|-----------|

Danvers State Hospital:

| | | | | | |
|--------|--------|---------|--------|----------|----------|
| 46,282 | 1/9/50 | 5/5/51 | 687 14 | 1,380 11 | 692 97 |
| 46,410 | 3/2/50 | 3/10/50 | 11 44 | 1,305 82 | 1,294 38 |

Walter E. Fernald School:

| | | | | | |
|--------|---|-------------------|---|--------|--------|
| 10,446 | - | 1/27/52 (died) | - | 262 88 | 262 88 |
|--------|---|-------------------|---|--------|--------|

Grafton State Hospital:

| | | | | | |
|--------|---------|---------|--------|--------|--------|
| 11,117 | - | 7/23/52 | 568 61 | 612 90 | 44 29 |
| 11,470 | 4/17/52 | 5/18/52 | 44 29 | 195 73 | 151 44 |

Medfield State Hospital:

| | | | | | |
|--------|---|---------|--------|--------|--------|
| 12,909 | - | 2/27/52 | 207 14 | 474 31 | 267 17 |
|--------|---|---------|--------|--------|--------|

Metropolitan State Hospital:

| | | | | | |
|-------|---------|----------|--------|----------|----------|
| 6,787 | 3/23/49 | 8/29/49 | 202 86 | 1,574 39 | 1,371 53 |
| 7,084 | 7/6/49 | 7/12/49 | 8 57 | 1,647 27 | 1,638 70 |
| 7,893 | 7/20/50 | 8/21/50 | 45 71 | 1,105 80 | 1,060 09 |
| 8,499 | 5/10/51 | 5/19/51 | 12 86 | 685 77 | 672 91 |
| 8,736 | 9/16/51 | 10/16/51 | 42 86 | 391 46 | 348 60 |

Northampton State Hospital:

| | | | | | |
|--------|---------|---------|--------|----------|----------|
| 31,411 | 2/11/50 | 4/29/50 | 110 00 | 1,304 39 | 1,194 39 |
| 31,643 | 5/29/50 | 10/9/51 | 246 00 | 609 64 | 363 64 |

Taunton State Hospital:

| | | | | | |
|--------|---------|------------------|--------|--------|--------|
| 42,042 | - | 3/9/52 (died) | 52 86 | 304 30 | 251 44 |
| 42,082 | 11/2/51 | 6/9/52 | 304 30 | 425 74 | 121 44 |

Westborough State Hospital:

| | | | | | |
|--------|---|-------------------|--------|--------|--------|
| 30,106 | - | 8/22/51 (died) | 241 44 | 778 61 | 537 17 |
|--------|---|-------------------|--------|--------|--------|

Worcester State Hospital:

| | | | | | |
|--------|---------|--------------------|-------------------|--------------------|--------------------|
| 56,144 | 11/8/50 | 10/27/51 (died) | 490 00 | 932 93 | 442 93 |
| Totals | | | <u>\$3,368 97</u> | <u>\$14,804 97</u> | <u>\$11,436 00</u> |

It is suggested that whatever steps may be necessary be taken to prevent charges being set up and bills rendered on account of patients no longer in the hospital.

In this connection it was further noted that the department is notified by the several institutions of the change of status of a patient by noting such change on the register of unpaid accounts receivable which is sent to each hospital about 12 days after the close of the month and which is returned by the institution about the 4th day of the following month. It was noted that the change of status shown by the register previously referred to is not signed by any one at the institution.

Debit and Credit Adjustments: In connection with this examination the debit and credit adjustments in the Institution Income Accounts Receivable were analyzed for the month of November 1951, the debit adjustments totaled \$11,162.73 and the credit

adjustments totaled \$110,122.25, detail of which follows:

Analysis of Debit Adjustments

| | |
|---|--------------------|
| Increase in Rate | \$ 4,775 14 |
| Charge to Accommodate Payment in Office | 3,021 94 |
| Absorb Credit Balance | 951 87 |
| Returned from Visit | 890 90 |
| Transfer to Active Account | 768 98 |
| Billing Charge Omitted | 262 88 |
| Charge to Accommodate Payment at Hospital | 167 15 |
| Payment Credited in Error | 107 50 |
| Refund of Receipt Voucher | 58 57 |
| Payment Credit Balance Transfer | 55 72 |
| Payment and Mark-Off Made at Same Time | 46 50 |
| Charge Taken out in Error | 31 00 |
| To Correct Billing | 24 58 |
| | <u>\$11,162 73</u> |

Analysis of Credit Adjustments

| | |
|--|---------------------|
| Canceled by Division of Support and Settlement | \$ 77,268 61 |
| Transfer to Active | 12,926 83 |
| Settled by the Attorney General | 8,687 97 |
| Death, Discharge or Visit not Noted | 6,100 13 |
| Change of Payor | 2,127 70 |
| Decrease in Rate | 1,862 35 |
| Payment not Credited | 384 66 |
| Incorrectly Computed | 279 54 |
| Veterans Administration to Maintain | 247 14 |
| Payment Credited in Error | 168 50 |
| Overbilled | 60 25 |
| To Criminal Section | 8 57 |
| | <u>\$110,122 25</u> |

Institutions - Monthly Financial Reports: The previous audit report stated:

"The Institution Financial Reports which are submitted monthly to the Department of Mental Health are apparently not being reconciled with the control financial records in the Department.

"It is suggested that the Department instruct the Treasurer of each of its institutions to include in their respective monthly reports a complete analysis of the 'Collections - Board of Patients'."

As this suggestion has not been adopted, attention is again called to it.

Comparison of Cash Collections Account of Patients' Board: A comparison follows showing certain information regarding some years during which this department operated its Billing Section manually as compared with the current machine system. The years from 1944 to 1949 inclusive show operations under the original system and the years 1950, 1951 and 1952 show operations under the machine system:

| Fiscal Year | | | Collection Cost per Dollar | <u>Increases</u> | |
|----------------|--------------------|--------------------------------------|----------------------------------|--------------------|-----------------|
| | <u>Collections</u> | <u>Salaries and Expenses</u> | | <u>Collections</u> | <u>Expenses</u> |
| 1944 | \$1,051,835 36 | \$ 38,047 40 | .036 | - | - |
| 1945 | 1,076,294 41 | 38,063 06 | .035 | \$ 24,459 05 | \$ 15 66 |
| 1946 | 1,152,697 91 | 41,175 57 | .0357 | 76,403 50 | 3,112 51 |
| 1947 | 1,200,411 39 | 48,155 42 | .0401 | 47,713 48 | 6,979 85 |
| 1948 | 1,247,263 80 | 50,378 63 | .0404 | 46,852 41 | 2,223 21 |
| 1949 | 1,294,427 19 | 55,737 38 | .0430 | 47,163 39 | 5,358 75 |
| 1950 | 1,379,730 07 | 85,411 56 | .0610 | 85,302 88 | 29,674 18 |

| | | | | | |
|------|----------------|--------------|-------|--------------|-------------|
| 1951 | \$1,551,733 67 | \$ 92,770 89 | .0598 | \$172,003 60 | \$ 7,359 33 |
| 1952 | 1,829,698 97 | 103,326 75 | .0565 | 277,965 30 | 10,555 86 |

Collections, therefore, were \$277,965.30 more in 1952 than in 1951; however, attention is called to the fact, as indicated in the above table, that there has been a tendency toward increased collections for many years, but in no wise has this increase been comparable with the rate of increase of expenditures of the several institutions.

MILITARY DIVISION OF THE EXECUTIVE DEPARTMENT

REPORT NO. 53-39

Rifle Range at Camp Curtis Guild - Purchase of Land for Rifle Range: Chapter 291 of the Acts of 1925, as amended by Chapter 558 of the Acts of 1949 provides for a State Rifle Range and establishes the basis for fees to be charged. This statute reads in part as follows:

"The state quartermaster shall, subject to the approval of the adjutant general, establish a system of fees for the use of said state rifle range."

Prior to the enactment of this law the Quartermaster was required, under the provisions of the 1925 Act, to:

"...establish a system of fees sufficient to provide for the entire cost of maintaining said range plus five per cent per annum on the investment of the commonwealth therein."

In this connection attention is called to the fact that during the period between 1926 to 1949 there were only six years in which the fees were sufficient to meet the costs as outlined.

Parking Permit - State Land Adjoining the Commonwealth Armory: Chapter 627 of the Acts of 1947 authorized the Adjutant General, with the approval of the Governor - Commander-in-Chief - to permit the use, for motor vehicle purposes, at certain times, of the State land adjoining the Commonwealth Armory in the City of Boston. A permit was issued to the Commonwealth Avenue Parking, Inc. for \$2,000.00 per annum with option of renewal. This permit was signed by the Adjutant General and was approved by the Lieutenant-Governor, acting for the Governor.

A renewal of the permit was granted to run from July 8, 1948 to July 8, 1949 for \$2,000.00. This permit was canceled July 22, 1949 and was not renewed. In its place a permit was granted for the use of the space to the same company for \$30.00 a day for specified days. In addition a charge was made of \$1.00 a day for the use of electricity.

During the period under audit there was no income from this source. It also appears that no permits will be issued in the immediate future as it is the intent to reserve this particular area for military vehicles only.

Federal Participation Contract: For the 1952 year service contracts were entered into with the Federal Government whereby the Commonwealth is to be reimbursed for 75% of the operating costs of certain installations, as follows:

| <u>Contract Number</u> | <u>Location</u> | <u>Maximum amount to be reimbursed to the Commonwealth by the Federal Government</u> |
|------------------------|---|--|
| DA-19-093-NG-88 | Commonwealth Maintenance Depot, Whittemore Center, Ayer | \$13,500 00 |
| DA-19-093-NG-89 | Fort Devens Airfield, Ayer | 5,000 00 |
| DA-19-093-NG-87 | Commonwealth Supply Depot, Natick | 36,150 00 |
| DA-19-093-NG-91 | Massachusetts Military Reservation, Falmouth | 4,000 00 |
| DA-19-093-NG-90* | Rifle Range, Camp Curtis Guild at Wakefield | 5,640 00 |
| DA-19-093-NG-95 | 101st Communication Squadron, Somerville Armory | 2,600 00 |
| DA-19-093-NG-69 | Barnes Field, Westfield | 21,500 00 |

| | | |
|-----------------|--|-------------|
| DA-19-093-NG-68 | Aviation Facilities at Logan Airport, East Boston | \$34,900 00 |
| DA-19-093-NG-67 | Air Facilities at Grove Street, Worcester | 2,000 00 |

* Contract terminated June 30, 1952.

Accounts Receivable: The unpaid accounts receivable as indicated in the control account in the general ledger totaled \$2,269.44 as of September 24, 1952. It was noted in this connection, that two accounts had been collected for this division by the State Treasurer and Receiver-General at the time of the annual settlement with the Cities and Towns. Even though these items had been properly reported to the division by the Comptroller, one item involving \$1,212.51 had not been entered in the control account. It is suggested that all items of this nature should be journalized immediately on receiving notification.

A review of the inactive accounts indicated that charges totaling \$2,150.00 for the rental of the National Guard Hangar at East Boston have remained unpaid since 1947. This account which has been referred to the Attorney General for disposition does not appear in the accounts receivable control account in the general ledger so it is suggested that the necessary entries be made and entered.

Accounts Receivable - Rental of Armories: Applications for Use of Armories are generally accompanied by a check for the exact amount due. Educational groups, non-profit organizations, and certain other specified organizations are allowed to pay at a later date. As of September 24, 1952 there was due from such groups, on the basis of 16 permits, a total of \$1,199.00. It was noted that charges had not been set up for the permits, and the amounts were accordingly not included in the accounts receivable control account in the general ledger.

It is suggested that all such charges be brought onto the general books of the Division as soon as the amounts due have been determined.

Accounts Receivable - Camp Curtis Guild: Attention is called to the fact that charges for target hire totaling \$99.00 for the period from September 1, 1952 to September 24, 1952 were not included in the financial statements appended to this report, because the charges indicated by vouchers were not received in the office of the State Quartermaster until October 1, 1952.

Federal Reimbursements - National Guard Service Bureau: Attention is called to the fact that the contract balances not reimbursed as of September 24, 1952 totaled \$2,400.44. The amounts due, included in this total, are subject to review by the Bureau before payment by the Federal Government.

Target Hire - Cash Vouchers: It was noted that the cash vouchers for target hire did not indicate the name of the person, or organization using the facilities. It is, therefore, suggested that these vouchers include this necessary means of identification.

Check Register: It is suggested that the Comptroller's Bureau be contacted relative to the installation of a check register to be used in connection with the issuance of the printed serially numbered block checks which have no attached stubs.

Endorsements on Checks Issued for Allowances: It was noted that many checks drawn quarterly to the various National Guard units fail to show sufficient and proper endorsements. It is understood that an endorsement stamp has been ordered for this purpose.

Refund of Receipts: It is suggested that journal entries be made for each refund of receipts voucher properly authorized. This would establish a complete record of income transactions as shown by the control accounts in the general ledger, and would also be in accordance with instructions in the Accounting Manual issued by the Comptroller's Bureau.

Telephone Pay Stations: It is suggested that an active list of telephone pay stations located in armories and on other National Guard premises be maintained on file at headquarters. Commissions received from this source were checked only as recorded.

Armorer's Monthly Reports: In a few instances these monthly reports did not include complete information regarding rentals and services rendered during the month covered by the report. It is suggested that these reports show all information as to hours and type of services rendered together with any other pertinent information.

DEPARTMENT OF PUBLIC HEALTH

GENERAL DEPARTMENT

REPORT NO. 53-42

District Offices: The district offices, with the exception of the North Metropolitan Area Office in Boston, were not visited in connection with this examination. The district offices outside of Boston were corresponded with, with respect to any cash or checks representing license fees for nursing or boarding homes being on hand. The replies, however, indicated none on hand on the date of audit.

Agreement with Red Cross: An agreement between the Department of Public Health and the American Red Cross was continued during the 1952 fiscal year on a reimbursement basis. Reimbursements for this period amounted to \$117,584.53. Unpaid reimbursements for the period July 1, 1952 to September 30, 1952 totaled \$12,183.68 and were still unpaid as of October 6, 1952.

1952 Fiscal Year Liability Not Recorded on Books: An audit of the charges to the appropriation account for "Payment of Subsidies to Cities and Towns for Tubercular Patients in Certain Hospitals" for the 1952 fiscal year indicated that there were included bills totaling \$454,611.95 which were applicable to the 1950 calendar year. Early in 1952 the Division of Tuberculosis and Sanatoria in this Department received from the several cities and towns the subsidy bills for the year ended December 31, 1951. On May 17, 1952, after verification by this Division, these bills which totaled \$458,265.88 were sent to the Department's fiscal office for final verification and payment. However, the department records on June 30, 1952 indicated that no entry had been made on its books to encumber these invoices for the 1951 calendar year, apparently because the 1952 appropriation had been exhausted in paying comparable bills for the 1950 calendar year.

Quarterly Reports Required of Manufacturers of Ice Cream: A recommendation which was made in the previous audit report relative to having "Out-of-State Ice Cream Manufacturers" furnish quarterly reports to this department has been complied with and regular reports are being accordingly received each quarter in accordance with this recommendation.

New Chronic Disease Hospital: Chapter 732 of the Acts of 1945 made available \$200,000.00 for the preparation of plans for a new chronic disease hospital in the vicinity of Stoneham, Massachusetts. This amount was part of the appropriation originally allocated to the Emergency Public Works Commission. The preparation of the plans was made contingent upon the approval of the location of the site by the cities or towns within which the hospital might be located. Apparently these approvals were not received because Chapter 685 of the Acts of 1947 reappropriated this amount.

The amount necessary for the construction of the hospital was, however, provided by Chapter 790 of the Acts of 1949, which appropriated \$11,000,000.00 and placed the location in the Forest Hills area of Boston. The provision of the appropriation act, which appears as item 7820-01, reads as follows:

"For the construction of a six hundred bed chronic disease hospital in the Forest Hills area, according to plans made under the provisions of chapter seven hundred and thirty-two of the acts of nineteen hundred and forty-five, including power plant and employees' dormitories and the cost of furnishings and equipment \$11,000,000.00"

In connection with the foregoing, it was learned that the problem of paying for the plans and specifications indicated was the subject of discussions between the Comptroller's Bureau and the Massachusetts Public Buildings Commission, at that time, and it developed that the then estimated cost thereof would be in excess of the \$200,000.00 originally contemplated which had been provided by the 1945 appropriation. It was, therefore, deemed expedient in order to eliminate any possible problems in this regard, to take steps to enact more specific legislation. As a result of the action in this

direction, Chapter 481 of the Acts of 1950 provided by item 7820-01, reads as follows:

"For the construction of a six hundred bed chronic disease hospital in the Forest Hills area, including power plant, employees' dormitories and the cost of furnishings and equipment, to be in addition to any funds available in item 2001-22 of section two of chapter seven hundred and thirty-two of the acts of nineteen hundred and forty-five as reappropriated by section two of chapter six hundred and eighty-five of the acts of nineteen hundred and forty-seven, said available funds are hereby reappropriated and made available for the purposes of this item; provided, that notwithstanding the limitation in section one of chapter seven hundred and ninety of the acts of nineteen hundred and forty-nine the funds made available by this item shall be available for expenditure through June thirtieth, nineteen hundred and fifty-two... \$11,000,000.00"

It is understood that it is now the opinion of the Comptroller's Bureau that if the cost of plans should exceed \$200,000.00, any excess may be properly charged to the new appropriation.

On June 4, 1946, the Emergency Public Works Commission of the Commonwealth approved a contract with a concern of engineers to be designers for a hospital to be located in Stoneham. On December 6, 1949, the Public Health Council terminated this contract and submitted to the Executive Council and the Massachusetts Public Buildings Commission the names of three other architectural firms for consideration in connection with their engagement in the designing of the new hospital in the Forest Hills section of Boston.

In this connection it was noted that the original designer - contractor submitted in September 1947 an invoice in the amount of \$20,000.00 which was returned to the Department by the Massachusetts Public Buildings Commission as "not approved". It is noted that a lawsuit has been brought by this contractor who seeks to collect this fee and at the present time the matter is being litigated in the courts of the Commonwealth.

On October 5, 1951, the Department of Public Health opened the general bids for the actual construction of a hospital at Forest Hills and the two lowest bids appeared to be as follows:

| | |
|------------|-----------------|
| Bidder "A" | \$11,179,526 25 |
| Bidder "B" | 11,179,685 00 |

The Department of Public Health on the basis of these general bids submitted, selected Bidder "A" as the general contractor. The bids of the several sub-contractors were subsequently opened; and, after rejecting one sub-bidder named by both of the foregoing bidders and substituting the next lowest sub-bidder on the item in question, the contract was awarded to Bidder "A" at \$11,192,517.05. The Massachusetts Public Buildings Commission approved the award on October 24, 1951 and the contract was signed November 16, 1951.

Subsequently, suit was brought by Bidder "B" and certain taxpayers seeking to enjoin the award of the contract on the grounds that Bidder "A" had understated certain sub-bids included with his general bid. When the Superior Court of the Commonwealth dismissed this petition, Bidder "A" entered in apparent good faith upon performance of the contract. However, Bidder "B" appealed this decision to the State Supreme Judicial Court and the latter ruled, on April 8, 1952, that because Bidder "A" had understated the amount of certain sub-bids in his general bid statement that he was accordingly not the lowest bidder. Bidder "A" thereupon immediately closed all work on the project. Attempts were subsequently made by the Department and the Massachusetts Public Buildings Commission with the two lowest bidders with a view to expedite the construction of the hospital, but with no apparent success.

Legislation was recommended to the 1952 session of the General Court by the Commissioner of Administration and Finance which would in effect validate the contract of Bidder "A" and allow resumption of work immediately. This legislation was, however, recommended by committee to the next annual session of the Legislature.

New bids were invited and on September 12, 1952, these were opened. The aforementioned Bidder "A" was again the lowest bidder at \$11,379,587.30 and the original Bidder "B" was the second lowest bidder at \$11,786,000.30. In order to clarify the status of the alleged original illegal contract and any implication that said contract might bear on the award of the new contract, a meeting was held on September 30, 1952 in the office of the Attorney General, at which were present the Attorney General, the

Commissioner of Public Health, the Commissioner of Administration and Finance, a representative of the Public Buildings Commission and others. It was learned that at this conference the Attorney General stated that the two contracts were to be treated as separate and distinct transactions. He also stated that it was the total responsibility of the department of the Attorney General to liquidate any claims, moral or legal, and also his responsibility to recover to the Commonwealth any monies paid under the contract determined to have been illegal by the Supreme Court of the Commonwealth.

Because of this directive the Commissioner of Public Health on September 30, 1952, turned over to the Department of the Attorney General for action the collection of monies paid to Bidder "A" under the original illegal contract in the amount of \$789,712.20.

Attention is directed to the fact that prior to the aforementioned meeting, it had been agreed between the Public Buildings Commission and the Commissioner of Public Health that no award of the new contract would be made until certain statements regarding cost of work already performed under the illegal contract by original Bidder "A" were received by the Commissioner.

Subsequent to this meeting, it was learned that the Public Buildings Commission voted to waive its recommendation that no award be made and so advised the Commissioner of Public Health. The latter, however, was insistent that his department receive from the original Bidder "A" a statement that should the award be made to him in the new contract, it would in no way jeopardize or affect the claim of the Commonwealth for monies paid under the illegal contract, or by the same token, any claim by the original Bidder "A" which might exist under the original alleged illegal contract, and a letter dated October 2, 1952, from this contractor, agreeing to the above was accordingly received. Thereupon contract 1-A was approved for award to the same contractor on October 16, 1952, by the Commissioner, the five members of the Public Buildings Commission and a member of the Attorney General's office. It is understood that work has now been started under the new contract.

The total amount billed by Bidder "A" under the alleged illegal contract of November 16, 1951 was \$964,703.02. This amount was billed on four separate invoices and was based on the generally accepted schedules of estimated amounts of completed work. Three of the four invoices were paid and the fourth amounting to \$174,990.82, dated March 31, 1952, was not paid.

Attention is also called to the fact that Chapter 756 of the Acts of 1951, Item 7720-01, provided for a further appropriation of \$3,500,000.00 for the new hospital at Forest Hills. This item reads as follows:

"For the construction of a six hundred bed chronic disease hospital in the Forest Hills area, including power plant, employees' dormitories and the cost of furnishings and equipment to be in addition to the amount made available by item 7820-01 of section two of chapter four hundred and eighty-one of the acts of nineteen hundred and fifty \$3,500,000.00"

It was further noted that so-called Contract 2 for the construction of a Service Building at this hospital was awarded in the amount of \$1,180,357.00 to the lowest bidder of record on May 5, 1952 after allowances and adjustments were made on certain sub-bidders' estimates. Work on this project was started shortly thereafter.

Attention is also directed to the fact that the appropriation of \$200,000.00 originally made in 1950 and reappropriated in 1951 for plans, etc. was completely exhausted in March 1952. These charges included \$12,370.35 for consulting fees paid on the basis of 355 days at \$34.8461 per day.

Maintenance Account for the New Hospital: The maintenance appropriation accounts for the new Chronic Disease Hospital are presently being maintained in the fiscal office of the Department of Public Health. To this account has been charged, since December 1, 1951, the salaries of the superintendent, Dr. William H. Turville, the steward and certain clerical help, and also office expenses, supplies, etc. It is understood that these records, etc. will be turned over to the Treasurer of the new hospital when it is opened.

GRAFTON STATE HOSPITAL

REPORT NO. 53-43

Canteen Theft: On the morning of Saturday, July 12, 1952, the canteen was broken into by a person or persons unknown and ostensibly merchandise valued at \$526.89 was stolen. The State Police were notified at that time as was also the Department of

Mental Health. To date of audit the responsibility for this theft had not been established.

Variances Between Quarters Register and Pay Roll for Room Rents: In checking the amounts authorized to be deducted from employees' salaries on the pay roll with the "Quarters Register", a considerable number of variances, both overcharges and undercharges, were noted. This situation was discussed with the institution Treasurer who stated that the "Quarters Register" will be reviewed and any necessary adjustments will be forthwith effected.

Psichos Fund: A trust fund called the "Psichos Fund" was established on the books of this institution during the current audit period. In this connection the following excerpt from the minutes of the Board of Trustees meeting of April 6, 1952 is shown:

"Dr. Inman informs the Board that during the Christmas Holidays a former patient of Grafton State Hospital, Constantine Psichos, sent, to some of the physicians on the staff, personal checks. These checks were ignored and not cashed. Later in January, he again sent them money through the American Express for a total of \$1,050.00: checks sent as follows - Dr. Inman, \$325.00; Dr. Bird, \$250.00; Dr. Malmstead, \$100.00; Dr. Jacques, \$275.00 and Dr. Brass, \$100.00.

"The above physicians feel that it is not proper for them to accept this money, and since they have been unable to contact Mr. Psichos they, therefore, have deposited these checks to the 'Psichos Fund'. This fund is to be under the control of the Board of Trustees of the Grafton State Hospital and is to be used for one purpose only and that is for the benefit of the patients or the hospital.

"Mr. LaDuke moved that the 'Psichos Fund' established by the above named physicians be accepted. Seconded by Mrs. Cahill. Unanimously accepted by the Board of Trustees."

Special Fund Payments: An analysis was made of the payments from the so-called "Special Fund" for the audit period with the following result:

| | |
|--|-----------------|
| Washing Machine, Irons, Ironing Boards, etc. | \$256 93 |
| Paint, Paint Brushes, etc. | 153 90 |
| Lumber | 76 54 |
| Loans to Patients Going Out | 55 00 |
| Watches | 27 36 |
| Charity Circus | 15 00 |
| Faucet and Hose (Washing Machine) | 10 10 |
| Books | 9 70 |
| Express | 4 80 |
| | <u>\$609 33</u> |

The purchase of the washing machine and ironing boards, lumber, and paint and paint brushes was discussed with the Superintendent of this Institution and it was learned that the laundry items were purchased for use by a group of female patients for washing personal belonging which would otherwise have to be laundered at the institution laundry where the facilities offered for this type of laundering are limited. The lumber was used to remodel a room in the auditorium used as a patients' library. The paint and paint brushes were used to paint the ceiling in the canteen and the library which had been remodeled. It would seem that the latter two payments should have more properly been made from the Canteen Fund.

LAKEVILLE STATE SANATORIUM

REPORT NO. 53-44

Farm Production Reports: The farm production reports for the 1950 farm year, which could not be located during the previous audit, were available for examination during this audit, and were checked.

Farm: In accordance with instructions from the Commission on Administration and Finance the farm was officially discontinued as of June 30, 1952.

DANVERS STATE HOSPITAL

REPORT NO. 53-45

Escrow Retirement Fund: It was noted that the individual escrow retirement ledger cards are being destroyed when the funds are sent to the State Retirement Board. Arrangements should be made to retain these cards until they have been examined in connection with the annual audit.

Accounts Receivable Ledger: It was also noted that the accounts receivable ledger was posted only through April 1952. This folio should, of course, be currently maintained as it is a very important record.

Canteen Fund: A completely equipped canteen is now maintained at this institution, and is closed two days of each week because of the inability of only one canteen caretaker to handle the duties of the store.

Attention is also called to the fact that the cash book is not closed and balanced each month nor is a general ledger maintained for the canteen accounts. These important records should be made available.

1951 Farm Report: In connection with the examination of these accounts, it was noted that the milk production averaged 6,092 quarts per cow per year and was produced at a cost of \$.1541 per quart.

It was further noted that of 640 pigs born during this farm year, 1 1/2% were stillborn, 29 1/2% died and 9 1/4% were killed as unfit for food, a total loss of 40 1/4%. The reason advanced for this abnormal percentage was insufficient accommodations and an epidemic of enteritis among the fall pigs.

Maintenance Charges: It was noted that collections on account of house apartments and room rent for this audit period totaled \$27,299.40 compared with potential income of \$35,122.69 if all accommodations had been completely occupied, or 77% of capacity.

The following indicates the manner in which income from these sources has been continuously decreasing:

| <u>Calendar Year</u> | <u>Room Charges</u> | <u>Meals</u> | <u>Total</u> | <u>Month of August</u> |
|--------------------------|-------------------------|--------------|--------------|------------------------|
| 1949 | \$101,262 87* | \$10,182 00 | \$111,444 87 | \$9,287 07 |
| 1950 | 34,345 18 | 28,006 20 | 62,351 38 | 5,195 95 |
| 1951 | 32,850 50 | 19,292 40 | 52,142 90 | 4,345 24 |
| 1952** | 23,749 19 | 14,802 60 | 38,551 79 | 4,253 53 |

* Includes Meals first 9 months

** 9 months

MYLES STANDISH STATE SCHOOL

REPORT NO. 53-46

Accounts Receivable: The audit report of the previous examination suggested that an amount which had been referred to the Attorney General for disposition be transferred to the Suspense Account. It was noted that this suggestion has been adopted.

Farm Accounts: The farm profit for the 1951 farm year was \$17,637.30 as compared with \$10,588.81 for the 1950 farm year. This increase was determined to be largely due to crediting higher prices for farm products and to a substantial increase in the livestock inventory.

Patients' Valuables: It was noted that the patients' valuables are now being properly recorded on the patients' standard ledger card in conformance with a suggestion in the previous audit report.

Paroled Patients' Funds: It was noted that individual bank accounts are now being opened for paroled patients. This is also in accordance with a suggestion made in the previous audit report.

Patients' Funds: In accordance with a suggestion made in the previous audit report, a substantial part of the balance in this fund has been transferred to a savings account where it is earning interest.

School Lunch Program Fund: This fund was established with money provided by the Federal Government to supplement the rations of patients.

Canteen Accounts: The canteen at this institution consists of six vending machines. The standard bookkeeping system has not as yet been installed.

In compliance with a recommendation in the previous audit report, a cash book which seems adequate at present for this type of canteen, is now being maintained.

DEPARTMENT OF AGRICULTURE

GENERAL DEPARTMENT

REPORT NO. 53-47

General: The principal purpose of the Dairy Bonding Law is ostensibly to protect the financial interests of Massachusetts producers in the event of certain contingencies. Bonds provided by this statute and their processing is controlled by a section within the Department of Agriculture which is known as the Dairy Bonding Section, operating directly under the control of the Commissioner of Agriculture.

Dairy Bonding - Trust Deposit Control Accounts: The Trust Deposit Control Accounts in the general ledger of this department consist of the following:

(1) Miscellaneous Trust Deposits - Notes secured by Savings Bankbooks, Stocks, Real Estate Mortgages, Life Insurance Policies, and Miscellaneous Stocks and Bonds.

(2) Bond Trust Deposits - U. S. Treasury Bonds. Miscellaneous Trust Deposits Control Account is charged with the excess of notes received over notes returned and is credited with the excess of notes returned over notes received. The Bond Trust Deposits Control Account is adjusted in accordance with necessary changes in bond coverage.

In connection with the foregoing it is suggested that control accounts for each different type of collateral now collectively included in the Trust Deposit Miscellaneous account be maintained in the general ledger, and that each such account be charged with the total value of notes received and be credited with the total value of notes returned.

Dairy Bonding - Collateral to be Returned: It was noted that the collateral, excepting surety bonds, on hand for the accounts of the various inactive operators, totaled \$2,700.02, and consisted of 13 Savings Bankbooks. This amount included 9 accounts totaling \$972.36 which were in this category at the time of the previous examination. As a matter of fact a few of these accounts were set up as far back as 1937. It was also noted that there were on hand two surety bonds totaling \$9,000.00 both given by operators who are now inactive.

Inasmuch as the Department of Agriculture has no direct equity in the inactive collateral it is again suggested that the foregoing collateral be returned to their proper owners. It is also suggested that the parties concerned be notified of the releases of their respective assignments.

It is further suggested that a control account be maintained in the general ledger for all items of inactive collateral, and that transfers be made promptly from the active controls.

Dairy Bonding - Ledger Records: It is suggested that all inactive account balances be carried forward until the final disposition of the corresponding collateral has been effected. Entries of Adjustments of notes, assignments and additional collateral received should be made immediately upon receipt of the advice of any change.

Dairy Bonding - Certified Check: When the office cash was balanced on the opening date of the audit, a certified check for \$3,300.00, dated September 15, 1952, representing collateral, was found on hand in the Dairy Bonding Section. The check was replaced on December 19, 1952 while the audit was in progress by an insurance policy and a certified check for the difference between cash surrender value of the policy and the amount necessary for coverage. It is suggested that henceforth certified checks should not be left in the Bonding Section, but should instead be deposited with the State Treasurer immediately on receipt.

Dairy Bonding - Collateral - Real Estate Mortgages: Real Estate Mortgages are held by the Commissioner of Agriculture to secure performance bonds deposited by milk plant operators under Section 42A, Chapter 94 of the Tercentenary Edition of the General Laws. It is suggested that he request the mortgagors to assign real estate tax receipts

and insurance policies on the mortgaged property to his custody so that any impairment of the collateral deposited may be controlled.

Dairy Bonding - Producers Exempt from Security: Section 42E of Chapter 94 of the Tercentenary Edition of the General Laws states as follows:

"If an applicant for a license under section forty-two A is a producer of milk or cream, or both, and, in addition to that produced by him, purchases per day from other producers not more than one hundred quarts of milk or its equivalent in cream or in milk and cream, as determined by the commissioner, and if the commissioner is satisfied from an investigation of the financial condition of the applicant that he is solvent and possessed of sufficient assets to reasonably assure compensation to his present and future creditors, the commissioner may, by an order filed in the department of agriculture, relieve such applicant from filing a bond or other security."

It will be noted that the foregoing specifically relieves an applicant, under certain conditions, from filing a bond or other security upon an order filed by the Commissioner.

It was noted, however, that during the audit period no such exemption orders were found to be on file in the department. Certain milk plant operator's applications for license were found bearing the initials of the Acting Commissioner in the section reserved for Bond Requirement on the application with a notation "None" or "No Bond Required". It is suggested that a proper order form be used for such exemptions and that they be available within the department for use in connection with future audits.

Dairy Bonding - Dealers Not Bonded per Milk Control Board Audit: A list of 31 dealers with an apparent total bond requirement of \$14,684.32 was compiled in connection with that audit which included dealers without bond coverage, and producer-dealers purchasing less than 100 quarts daily from Massachusetts producers, who did not appear to have on file an order of exemption by the Commissioner.

From information received by departmental officials it was learned that of these 15 should have been bonded. Of the latter 15 dealers, 9 were bonded before the completion of this audit, while the remaining 6 were still not bonded. Requests for bonds have, however, been made for three of these latter 6 dealers.

Milk Plant Operators' Licenses: In reconciling the potential income from the Milk Plant Operators' Licenses as issued, with the actual income received, it was found that there were 35 licenses assigned but not issued for which the cash had been received and transferred to the State Treasurer. These licenses were still pending for the 1952 license year as of the date of audit and the operators concerned had apparently continued to do business throughout the year without actually having on hand the necessary licenses. Cash was received for these licenses between January 8, 1952 and October 22, 1952. This group included six dealers referred to in the previous comment.

From information available within the Milk Bonding Section of the foregoing dealers, 14 were classified as being under investigation, 19 of them were found not to have deposited the required amount of bond; 1 was out of business, and one was deceased. It was further learned that 16 of them are being held for necessary increases in bond requirements totaling \$20,025.00, 5 are held awaiting new bonds totaling \$5,750.00, while 7 have not renewed previous years' bonds totaling \$5,045.00. The remaining 7 do not appear to have any bond requirement indicated.

In this connection it is suggested that investigations of milk plant operators be expedited and also that those who have not fulfilled necessary legal requirements be precluded from functioning.

Milk Plant Operators' Licenses: It is suggested that licenses of Milk Plant Operators discontinuing business be returned to the Bonding Section where they should be left on file.

With respect to the Milk Plant Operators' Licenses, the previous audit report states as follows:

"Included in the list of pending items is an out-of-state operator who is apparently not required to file a bond or have a license who, however, paid a \$5.00 fee on February 28, 1950. It is suggested that this fee be refunded to him."

Inasmuch as no action has as yet been taken on the foregoing, attention is again directed to it.

Mosquito Control Funds Restricted Revenue: Under authority of Chapter 252 of the General Laws (Tercentenary Edition) as amended, the Comptroller's Bureau annually estimates the amount of the so-called assessments against certain cities and towns. On June 30, 1951 there was an accumulated surplus of \$14,750.63 from this source as indicated by the records of the Comptroller's Bureau and as of June 30, 1952 the accumulated surplus in this fund totaled \$3,167.47.

It is recommended that necessary accounts be opened on the books of this department so that these surplus items may be properly recorded.

Application for Poultry Dealer's License: In several instances the applications for these licenses for the year ending December 31, 1952 were not completed and questions pertinent to bond coverage were allowed to remain unanswered. It is suggested that these dealers be obliged to completely answer all questions indicated on the license form.

License Forms - Poultry Dealers: At present the same license form is used for the \$2.00 fee - 1st truck; and for the \$.50 fee for each additional truck. It is suggested that separate license forms be used for each type of license; that these forms be numbered serially in advance and that the amount of the fee be printed thereon.

Licensed Poultry Dealer - Not Bonded: It was noted that a 1952 license was issued to a dealer although he was not bonded. This dealer from outside of this state, has been refused a license for 1953, and his application has been returned to him. It was noted that in the past, several poultry dealers have applied for licenses and sent in the requested fee, but when they failed to furnish the requested bond, licenses were not issued.

Poultry Dealers' Surety Bonds: It was noted that there were \$868,200.00 surety bonds of this category on hand October 27, 1952. Inasmuch as there was no control account for them on the department general ledger, it is again suggested that one be established.

Poultry Dealer Surety Bond Record: It is again suggested that a permanent control record similar to that used in the Dairy Bonding Section be established.

Poultry Dealers' Collateral - Surety Bonds Foreclosed: During this audit period two surety bonds were liquidated. One bond of \$3,000.00 was liquidated and distribution was made to creditors with total claims of \$6,648.80, who realized only 45.12 per cent. The second foreclosure involved a surety bond for \$10,000.00 which when liquidated was deposited in a bank account of the Department in the State Street Trust Company, Boston, Massachusetts, in which category it still remained on deposit, October 27, 1952. It was learned that according to the known claims this poultry producer's liabilities totaled \$25,000.00.

It was noted in the instance of the second liquidation that a committee of seven was elected by the creditors to supervise the physical and financial operations of the farm involved. It is understood that an agreement form to protect the creditors' committee for two and one half years against involuntary bankruptcy was mailed to each creditor, and has been signed by creditors representing two-thirds of the total liability.

From the foregoing it is apparent that more careful supervision and examinations of poultry dealers' records is necessary if producers are to be protected financially in accordance with the terms of Chapter 446 of the Acts of 1949.

Accounts Receivable Control Account: It was noted that there was a difference of \$2.00 between this control account balance and the respective individual accounts receivable as of October 27, 1952. It is suggested that permission be obtained from the Comptroller's Bureau to adjust the difference after it is determined, providing that its cause cannot be identified.

Accounts Receivable Ledger: It was noted that page postings references are omitted from the individual accounts in the ledger. It is suggested that each entry show by reference, the cash book page, the journal entry number, or other source of the entry.

Accounts Receivable - Old Accounts: It was noted that several fruit and vegetable inspection accounts have been outstanding more than one year. It is suggested that they be turned over to the Attorney General for collection.

Verification notices were mailed to 32 active accounts with unpaid balances as of the date of audit and only two replies were received, both indicating they had no knowledge of the charge. Although it is understood that statements are mailed monthly for unpaid accounts, it is suggested that additional steps be taken to accelerate the collection of all accounts.

Reimbursements by the U. S. Department of Agriculture: It was noted that there was a letter on file to the Division of Markets stating that this Department would be reimbursed for services and travel of an employee who was doing certain work of the United States Department of Agriculture. During the period of this audit a reimbursement of only \$73.73 was received. It is understood, however, that further reimbursement is due for a substantial sum for other services rendered by the Department personnel. This amount could not be determined from Department records. It is, therefore, suggested that a permanent record be maintained of time and travel expenses by State employees for other than actual Department activities.

Rodent Control: On the basis of an agreement dated June 25, 1952 this Department paid \$8,000.00 to the Treasurer of the United States for rodent control purposes. This agreement was made for the period of one year to June 30, 1953 with the United States Department of the Interior, Fish and Wildlife Service for co-operative rodent control activities in the State of Massachusetts. Although summary reports are filed with this Department showing certain expenditures within the State, it is suggested that there should also be available a statement of the detailed expenditures made from the \$8,000.00 paid by this Department.

Agricultural Purposes Fund: This fund was created under authority of Chapter 390 of the Acts of 1947 and Chapter 319 of the Acts of 1948. Accounts for it, however, are not carried in the general ledger of the Department. Appropriations from the fund for the 1952 fiscal year totaled \$75,390.00, and for the fiscal year 1953 totaled \$74,790.00. Receipts into it were \$91,799.83 in 1952 and \$110,214.81 in 1953.

Poultry Inspections: To the date of the audit 16 inspections of this nature involving \$180.00 had been made and were billed as of October 28, 1952 and November 6, 1952.

Rentals: A lease for space used by this Department in the building at 41 Tremont Street in Boston, Massachusetts at \$10,783.50 per year expired June 30, 1952. A new lease presently being negotiated calls for an annual rental of \$14,480.70.

Three tabulating machines are rented from the International Business Machines Company for \$280.00 per month. There was no copy of a lease or rental agreement on file in the Department for them.

Fees Account of Duplicate Dairy Certificates: These certificates are not pre-numbered so that any reconciliation of income through inventories is impossible. It is again suggested that subsequent supplies of these certificates be prenumbered in advance by the printer.

Fruit and Vegetable Inspections: The Fruit and Vegetable Inspection Certificates are occasionally sent directly to the Department's inspectors in the field by Federal officials and others are sent to the Department of Agriculture, therefore, no possible control of income through serially numbered certificates could be established. It is again suggested that this matter be reviewed so that the income from this source may be controlled.

YOUTH SERVICE BOARD

GENERAL DEPARTMENT

REPORT NO. 53-50

Reimbursement by the City of Boston for Establishing and Maintaining Detention Home: Section 2 of Chapter 459 of the Acts of 1951, as amended, states in this connection as follows:

"Said chapter 542 is hereby further amended by striking out section 2, as amended by section 2 of said chapter 549, and inserting in place thereof the following:--

"Section 2. For establishing and maintaining a place or places of custody under this act, the board may expend such sums as may be appropriated therefor. Not later than October first in each of the years nineteen hundred and fifty-one and nineteen hundred and fifty-two, the board shall certify to the state treasurer the total amount expended by it under this act during the preceding fiscal year. One half of such amount shall be assessed on the city of Boston as provided by section twenty of chapter fifty-nine of the General Laws."

It was noted that the charges for maintenance for the 1951 fiscal year were assessed by the State Treasurer. This assessment was, however, based on maintenance charges which also included unpaid liabilities.

On September 3, 1952, the following letter was sent by the Youth Service Board to the State Treasurer with respect to reimbursement for comparable charges for the 1952 fiscal year.

C O P Y

The Commonwealth of Massachusetts
YOUTH SERVICE BOARD
14 Somerset St.

Boston, 8, Mass.
September 3, 1952

Mr. Foster Furcolo
Treasurer and Receiver General
State House, Boston

My dear Mr. Furcolo:

We hereby certify under the provisions of Chapter 549 of the Acts of 1950 that the following amount was expended to maintain the Detention Center at 105 South Huntington Avenue, Boston, for the year ending June 30, 1952:

| | |
|------------------------|-------------|
| Code 1384 - 01 - Total | \$93,926 67 |
| Liabilities | 7,209 91 |
| Cash Value | 86,716 76 |

Very truly yours,

wvf:w

Director

The assessment for this fiscal year was accordingly made on the basis of one half of the \$93,926.67 or \$46,963.33. No provision was again made to credit the City of Boston for the amount of 1951 liabilities not expended, as follows:

| | | |
|-----------------------------------|-------------------|--------------------------|
| Assessment November 1952 | | \$46,963 33 |
| 1951 Accounts Payable | \$13,679 27 | |
| Excess Accounts Payable | 18 43 | |
| | <hr/> \$13,697 70 | |
| Paid in 1952 Fiscal Year | 10,921 57 | |
| Balance Reverted | <hr/> \$2,776 13 | |
| Credit - One half Amount Reverted | | 1,388 06 |
| Corrected Assessment for 1952 | | <hr/> <u>\$45,575 27</u> |

The previous audit report stated that the statute appears to require the State Treasurer to assess the City of Boston for establishing this Detention Home, and in this connection the following letter was sent to the State Treasurer and Receiver General:

C O P Y

The Commonwealth of Massachusetts
YOUTH SERVICE BOARD
14 Somerset St.

Boston, 8, Mass.
October 4, 1951

Mr. John E. Hurley
Treasurer and Receiver General
State House, Boston

My dear Mr. Hurley:

The following amounts were expended on the purchase and renovation of the Detention Center, 105 S. Huntington Avenue, Boston:

| | |
|------------------------|--------------|
| 1950 Acct. No. 7804-03 | \$120,000 00 |
| 1951 Acct. No. 7804-03 | 47,481 51 |

Very truly yours,

/s/ William A. MacCormick

wvf:lcs

Chairman

To date the State Treasurer had not made this assessment against the City of Boston. It is understood that an opinion will be requested of the Attorney General as to the propriety of this assessment.

Materials and Supplies at the Boys' Detention Home: In this connection the previous audit report stated:

"A physical inventory of the items actually recorded on the stock ledgers was taken on that date and was compared with the stock ledger balances. As a result, many variances were noted which it is believed came about because proper and necessary controls were lacking.

"In view of the foregoing, it is suggested that a representative of the Comptroller's Bureau visit the Detention Home and after reviewing the present system, make necessary adjustments."

Under date of August 13, 1952, a letter from the Comptroller's Bureau to the Youth Service Board advised that in view of the small inventory of new, unused clothing on hand, which amounted to less than \$500.00, that the Materials and Supplies Account and the Stock Ledger presently maintained at the central office of the Youth Service Board be discontinued as of June 30, 1952.

Executive Secretary: The Executive Secretary retired on October 19, 1951 and since that date the assistant to the Executive Secretary has been acting in that capacity.

Bonded Employees: It is again suggested that all employees who sign checks and handle cash be bonded.

Service of the Youth Service Board: Attention is again directed to Section 2 of Chapter 756 of the Acts of 1951 which provides as follows:

"The construction of a reception detention building on property now owned by the Commonwealth in the City of Boston, including the cost of furnishings and equipment \$575,000.00"

It is understood that the purpose of this act is to build an addition to the present Detention Center for Boys which will include a Detention Home for Girls and a Reception Center for Boys and Girls.

Unpaid Wages - Female Wards: Wards of the Girls' Branch are sometimes placed in private homes as domestics after an agreement is entered into with the employer providing for the rate to be paid, etc. The cost of clothing, etc. is deducted from the total wages due. Generally, spending money is also given directly to the ward. The balance, after these deductions, is remitted to the Girls' Branch for deposit in a bank account which is maintained for each ward. On October 30, 1952, according to departmental records, there was due to the girls for net wages earned a total of \$826.10. This money has been outstanding for the following periods:

| | |
|-------------------|-----------------|
| Less than 1 month | \$ 55 71 |
| Over 1 month | 209 95 |
| Over 2 months | 93 14 |
| Over 3 months | 31 04 |
| Over 4 months | 16 57 |
| Over 1 year | 275 88 |
| Over 2 years | 41 14 |
| Over 3 years | 46 20 |
| Over 4 years | 45 41 |
| Over 6 years | 11 06 |
| | <u>\$826 10</u> |

The fundamental responsibility for the handling of these wards' accounts rests with this Board and it is obvious that sufficient effort is not being made to see that these accounts are collected currently. The last four items in this list are now in the hands of the Attorney General for collection or disposition. During the period under audit one account totaling \$51.91 was charged off as uncollectible with the authority of the Attorney General.

Verification notices were mailed to those outstanding accounts not with the Attorney General and acknowledgments were received from only approximately 25%.

Ward Wages - Accounts with the Attorney General for Collection: It was noted on the date of audit that the Attorney General's department had not received for collection items totaling \$57.34, even though this department's records indicate they were so forwarded. During the progress of the audit, this information was forwarded to the Attorney General's office, for his records.

Reimbursement for Support of Children: In this connection, Chapter 385 of the Acts of 1948 states as follows:

"The court may make an order for payment by parents or by the child's guardian out of the ward's property, or by any other person responsible for the care and support of said child, to the institution, department, division, organization or persons furnishing care and support at times to be stated in an order by the court of sums not exceeding the cost of said support after ability to pay has been determined by the court; provided, that no order for the payment of money shall be entered until the person by whom payments are to be made shall have been summoned before the court and given an opportunity to be heard. The court may from time to time, upon petition by, or notice to the person ordered to pay such sums of money, revise or alter such order or make a new order, as the circumstances may require."

With reference to this matter, the previous audit report stated:

"In certain cases where children are committed to the care of this Board by court order, a parent is ordered to pay a designated amount for the support of the child. These payments are made directly to the Probation Officer of the court which has jurisdiction, who remits these collections to this Board.

"In connection with the foregoing, it was impossible to determine from the records the number of those parents who had been thus ordered to pay, nor was it possible to determine the periods that the

reimbursements covered. It is, therefore, suggested that a separate file card be kept for each case and that some system be provided so that these collections may be currently controlled."

Inasmuch as no action has been taken on the foregoing suggestion, attention is again directed to it.

Special Bank Account - Boys' Parole Branch: In this connection, previous audit reports have stated:

"A fund of \$1,000.00 was set up to reimburse male wards for losses incurred by them because of irregularities in their respective savings accounts during the years 1943 and 1944. Payments from it totaled \$947.95 leaving a balance of \$52.05 in the fund.

"This account which is in the name of a former trustee, is on deposit in the State Street Trust Company of Boston.

"The balance is not carried on the books of the Board and the Executive Secretary of the Board indicated that this fund is not the property of the Commonwealth and the balance should be returned to the original donor.

"This fund has been inactive for some time, and it is believed that the matter of the disposition of the balance should be referred to the Youth Service Board."

During the course of this examination, it was learned that the Board had instructed the Acting Executive Secretary to close this account and as a result, the secretary received a check from the former trustee and forwarded the proceeds to the heir of the estate which had established the fund, thus closing the account.

Trustee Accounts - Cash Received from Other Sources: During the audit period there was received from "other sources" \$1,091.35 for boys and \$354.00 for girls, as follows:

Boys

| | |
|----------------------|-------------------|
| Turned over by Boys | \$ 883 12 |
| Insurance Companies | 115 00 |
| Other State Agencies | 93 23 |
| | <u>\$1,091 35</u> |

Girls

| | |
|----------------------|-----------------|
| Turned over by Girls | \$110 44 |
| Relatives | 10 00 |
| Other State Agencies | 233 56 |
| | <u>\$354 00</u> |

Trust Funds: Trust funds are on deposit in savings banks as follows:

Male

| | |
|---|--------------------|
| Suffolk Savings Bank for Seamen and Others, Boston | <u>\$11,674 15</u> |
|---|--------------------|

Female

| | |
|---|--------------------|
| Provident Institution for Savings, Boston | \$ 8,572 08 |
| Boston Five Cents Savings Bank | 2,159 49 |
| Westborough Savings Bank, Westborough | 2,025 91 |
| | <u>\$12,757 48</u> |

Suspense Account - Girls: It was noted that bankbook No. 604863 of the Provident Institution for Savings is included with the active trustee accounts under "Suspense Account". The balance in this account, as of the date of audit, was \$9.86 and represented an accumulation of several balances of less than \$1.00 each, together with small interest items, dated back to 1939.

Savings Bankbooks Held as Property: Six bankbooks not included with the Trustee Accounts were being held as "property" by the Youth Service Board on October 30, 1952. The individuals named on four of these bankbooks are, according to available records, over 40 years of age and one is more than 21 years of age. Another book belongs to a girl who was recently discharged and it is understood that it will be forwarded to her.

It is again advised that the Board consider the matter of the disposition of these accounts.

Recording of Cash Receipts in Girls' Division: The previous report suggested that the Girls' Division of the Youth Service Board keep a record similar to that in Boys' Division for the purpose of recording cash, checks, money orders and war savings bonds received for its wards. As this has not yet been accomplished, attention is again directed to it.

FOXBOROUGH STATE HOSPITAL

REPORT NO. 53-51

Income Not Being Transferred to the State Treasurer within Prescribed Time: It was noted that income is being sent to the State Treasurer only at the end of each month. Attention is directed in this connection to Section 27 of Chapter 30 of the Tercenary Edition of the General Laws, which states:

"Except as otherwise expressly provided, all fees or other money received on account of the Commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the Commission on Administration and Finance and the State Treasurer the interests of the Commonwealth require, payments may be made weekly in accordance with such rules and regulations as the State Treasurer may prescribe."

Canteen Variance: A comparison of the physical inventory with the established book inventory as of October 31, 1952 indicated the physical inventory to be \$218.55 less than the book inventory. The period covered by this shortage was from September 20, 1951 to October 31, 1952 during which the sales totaled \$15,089.03

DEPARTMENT OF PUBLIC SAFETY

REPORT NO. 53-52

Unnumbered License Forms: An inventory was taken of the various license and permit forms on hand in the stock room and in the various department offices as of November 20, 1952. Attention is directed to the fact that Chapter 541 of the Acts of 1952 provided that fees be assigned as follows, to the following licenses for which no fees were formerly collected:

| <u>Type</u> | <u>Form No.</u> | <u>Fee</u> |
|----------------------|-----------------|------------|
| Theatre License | BU 32 | \$25 00 |
| Special Hall License | BU 33 | 25 00 |
| Public Hall License | BU 34 | 25 00 |

It was noted, however, that these forms have not been prenumbered by the printer. For accounting control purposes all licenses for which a fee is charged should be so numbered and it is therefore suggested that the unissued licenses be numbered consecutively to conform with the procedures as outlined on page 47 of the Comptroller's Accounting Manual, as follows:

"In order to facilitate the audit of income derived from the issuance of licenses and certificates, spending agencies will use consecutively numbered printed forms."

Unlicensed Detective Agency: In connection with the audit of income from licenses issued to detective agencies a list was prepared from the most recent Boston Telephone

Directory of all detective agencies listed in the classified section. This list was checked to the department records to ascertain that licenses had been properly issued after payment of the required fees. One instance was noted where a company so listed was not licensed by the department. The department authorities were advised of this situation and prior to the completion of this audit it was noted that an application for such a license had been duly received. This application is currently being investigated by the department authorities.

COMMISSION ON ADMINISTRATION AND FINANCE

REPORT NO. 53-53

GENERAL: Prior audit reports have commented at length on the increasing complexities of the accounting system of the Commonwealth, since in recent years, due only in part to statutory changes, the State accounting system has gradually shifted from a cash system to a modified accrual system with greatly increased costs. It is the opinion of this Department that these changes are superfluous, since the various State departments, institutions and agencies are limited in their expenditures to amounts appropriated by the General Court for their maintenance and, therefore, the accounting system should be essentially maintained on a cash basis.

The more cumbersome of these changes have resulted from adoption of an allotment and encumbrance system, supposedly as a means of more effective control over expenditures. A review of the record of these systems indicates no improvements in control and they have proved expensive to maintain and, at the same time, have needlessly complicated the bookkeeping of every agency of the Commonwealth.

Allotment System: Section 9B of Chapter 29 of the General Laws provided for the installation of the allotment system, which ostensibly was intended to prevent overdrafts, but in reality represented a transfer of legislative authority to the executive branch of the State Government. While this statute has never been tested, considerable doubt exists as to its constitutionality.

Despite the substantial costs of maintaining the allotment system, deficiencies continue and prior audit reports have shown that they have actually increased. In the interests of economy and simplification, the Commission should advocate repeal of this section.

Encumbrance System: Section 29 of Chapter 29 of the General Laws requires that the Comptroller:

" . . . shall refuse to permit a disbursement or the incurring of an obligation if funds . . . sufficient to cover such disbursement or obligation . . . are not available."

As a direct result of this statute, it became necessary for the Comptroller to apply the encumbrance system to all state accounts maintained by his Department.

Basic financial responsibility for incurring an obligation in excess of an appropriation should rest with the head of the individual agency concerned since the Comptroller, operating without encumbrances, can still stop any expenditures in excess of amounts appropriated and this should be his primary duty.

In this connection, the previous audit report stated:

"Maintenance of the encumbrance system has added expensive red tape to operations of the financial controls of the Commonwealth and has not provided any additional control. In addition, it has placed responsibilities upon the Comptroller that belong with the head of each spending agency."

The mandatory provisions of Section 29 of Chapter 29 of the General Laws which relate to this subject should be removed, and this would permit the Comptroller to use discretionary judgment as to the methods that he shall use to control appropriations.

ANNUAL REPORT: Attention is directed to the provisions of Section 33 of Chapter 7 of the General Laws which states as follows:

"The commission shall, annually on or before the second Wednesday in January, submit to the general court a printed abstract of its annual report, exhibiting a full and accurate statement of the

financial condition and transactions of the Commonwealth for the preceding fiscal year; . . ."

This statute plainly calls for a "full and accurate statement of the financial condition . . . of the commonwealth".

Attention is also directed to the provisions of Section 34 of the same chapter, which states as follows:

"Such report shall contain a summary statement of the receipts into, and payments from, the treasury of the commonwealth for the preceding fiscal year; a detailed statement of such receipts and expenditures, including obligations, whether paid or unpaid . . ."

This section requires that the annual report of the Commission shall include obligations of the Commonwealth, "whether paid or unpaid" as of the date of the report, and therefore, the Commission is required to report the financial condition of the Commonwealth and include in that report a statement of all unpaid obligations.

Attention is directed to the fact that the annual reports issued by the Commission as Public Document 140, and the abstract issued as House No. 500 do not comply with the provisions of the law, since unpaid obligations of the Commonwealth, which on June 30, 1952 amounted to more than \$37,000,000.00 have not been included in either of these reports of the Commission, also there was at least \$5,000,000.00 in the Corporation Tax Fund which was apparently available for transfer to the General Fund but which had not been transferred; and, as a result, the "financial condition" of the General Fund, the Old Age Assistance Fund and the Veterans' Fund has not been accurately reported.

Further reference to the matter of the Corporation Tax receipts will be found later in this report.

The obligations not included in the report represent reimbursements due the cities and towns of the Commonwealth for funds actually expended locally, a list of the major items follows:

| Department Administering Appropriation | Period Reimbursable | Item | Fund | Amount Outstanding June 30, 1952 |
|--|-----------------------------------|---|-----------------------|--|
| Public Welfare | July 1951 to June 1952 | Aid to Dependent Children | General | \$ 6,032,424 32 |
| Public Welfare | July 1951 to June 1952 | Temporary Aid and Transportation | General | 1,964,128 93 |
| Education | July 1951 to June 1952 | School Superintend- ents in Small Towns | General | 176,741 01 |
| Education | July 1951 to June 1952 | Transportation of Pupils in Certain Towns | General | 2,217,948 17 |
| Education | Sept. 1, 1950 to Aug. 31, 1951 | Vocational Education | General | 3,509,899 67 |
| Education | Sept. 1, 1951 to June 30, 1952 | Vocational Education | General | 2,924,916 40* |
| Education | Sept. 1, 1951 to June 30, 1952 | Adult English Speaking Classes | General | 80,584 32* |
| Public Health | Jan. 1, 1951 to Dec. 31, 1951 | Tubercular Patients in Certain Hospitals | General | 458,265 88 |
| Public Health | Jan. 1, 1952 to June 30, 1952 | Tubercular Patients in Certain Hospitals | General | 228,226 53* |
| Judiciary | Jan. 1952 to June 1952 | Reimbursement - Suffolk County Court House Expenses | General | 93,560 75 |
| Public Welfare | Nov. 1951 to June 1952 | Grants in Aid | Old Age Assistance | 17,690,885 98** |
| Veterans' Services | Jan. 1952 to June 1952 | Veterans' Benefits | Veterans' Services | 1,641,971 66** |
| Total | | | | <u>\$37,019,553 62</u> |

* These amounts are estimates based on most recent Fiscal Year payments made to cities and towns.

** Chapter 310, Acts of 1952, permits payments for prior years to be made from the 1953 fiscal year appropriation for these items.

Aid to Dependent Children: Section 6 of Chapter 118 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for aid to dependent children.

An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #1904-10 during the period July 1, 1952 to December 20, 1952 indicated that reimbursements totaling \$6,102,538.88 and applicable to the 1951 - 1952 fiscal year had been paid to cities and towns from the 1952 - 1953 fiscal year appropriation. On July 1, 1952 the unexpended balance of the previous fiscal year's appropriation amounting to \$70,114.56 was brought forward, but no record of the above 1951 - 1952 fiscal year liability of the Department of Public Welfare appears in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Temporary Aid and Transportation: Section 18 of Chapter 117 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for temporary aid and transportation to indigent person with no legal settlement.

An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #1904-14 during the period July 1, 1952 to December 20, 1952 indicated that reimbursements totaling \$2,291,682.72 and applicable to the 1951 - 1952 fiscal year had been paid to cities and towns from the 1952 - 1953 fiscal year appropriation. In addition, there were outstanding liabilities totaling \$189,079.33 applicable to the 1951 - 1952 fiscal year unpaid on December 20, 1952. On July 1, 1952 the unexpended balance of the previous fiscal year's appropriation amounting to \$516,633.12 was brought forward, but no record of the above 1951 - 1952 fiscal year liabilities of the Department of Public Welfare appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

School Superintendents in Small Towns: Section 65 of Chapter 71 of the General Laws provides for partial reimbursement to small towns by the Commonwealth for salaries paid to Superintendents of Schools. An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #1301-51 during the period July 1, 1952 to December 30, 1952 indicated that reimbursements totaling \$176,741.01 and applicable to the 1951 - 1952 fiscal year had been paid to small towns from the 1952 - 1953 fiscal year appropriation. The above 1951 - 1952 fiscal year liability of the Department of Education does not appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Transportation of Pupils: Section 8-A of Chapter 71 of the General Laws provides for partial reimbursement to certain towns by the Commonwealth for transportation of pupils. An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #1301-53 during the period July 1, 1952 to November 30, 1952 indicated that reimbursements totaling \$2,217,948.17 and applicable to the 1951 - 1952 fiscal year had been paid to certain towns from the 1952 - 1953 fiscal year appropriation. The above 1951 - 1952 fiscal year liability of the Department of Education does not appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Vocational Education: Sections 9, 10, 11 and 12 of Chapter 74 of the General Laws provide for partial reimbursement to cities and towns by the Commonwealth for the expense of maintaining Agricultural and Industrial Vocational Schools.

An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #1301-54 during the period July 1, 1952 to December 20, 1952 indicated that reimbursements totaling \$3,476,712.03 and applicable to the school year September 1, 1950 to August 31, 1951 had been paid to cities and towns from the 1952 - 1953 fiscal year appropriation. In addition, there were outstanding liabilities totaling \$33,187.64 applicable to the 1950 - 1951 school year unpaid on December 20, 1952. It was also noted that the Department of Education had not completed its audit of invoices for Vocational Education applicable to the 1951 - 1952 school year. The outstanding liabilities to cities and towns for the period September 1, 1951 to June 30, 1952, based on the audited expenditures for the 1950 - 1951 school year, is estimated to be \$2,924,916.40

which is a conservative estimate in view of the fact that the 1951 - 1952 school year invoices is expected to exceed the 1950 - 1951 school year invoices because of increased salaries to school teachers. The following liabilities for Vocational Education do not appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance:

| | |
|---|-----------------------|
| Audited Invoices for the 1950 - 1951 School Year Paid from 1952 - 1953 Fiscal Year Appropriation | \$3,476,712 03 |
| Audited Invoices for the 1950 - 1951 School Year Awaiting Approval by Department of Education | 33,187 64 |
| Audited Expenditures 1950 - 1951 School Year | \$3,509,899 67 |
| Estimated Liabilities for the Period September 1, 1951 to June 30, 1952 (10/12 of \$3,509,899.67 - 1950 - 1951 school year) | 2,924,916 40 |
| Unpaid Liabilities June 30, 1952 | <u>\$6,434,816 07</u> |

Adult English Speaking Classes: Section 10 of Chapter 69 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for Adult English Speaking Classes.

It was noted that on November 30, 1952 that the Department of Education had not completed its audit of invoices for Adult English Speaking Classes applicable to the 1951 - 1952 school year which covered the period, September 1, 1951 to August 31, 1952. The outstanding liabilities to cities and towns for the period September 1, 1951 to June 30, 1952, based on the audited invoices for 1951 - 1952 school year to date, are estimated to be \$80,584.32. The above 1951 - 1952 fiscal year liability of the Department of Education does not appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Tubercular Patients in Certain Hospitals: Section 76 of Chapter 111 of the General Laws provides for subsidies to cities and towns by the Commonwealth for the care of tubercular patients in certain hospitals.

An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #2010-05 during the period July 1, 1952 to September 30, 1952 indicated that subsidies totaling \$458,265.88 and applicable to the 1951 calendar year had been paid to cities and towns from the 1952 - 1953 fiscal year appropriation. The outstanding liabilities to cities and towns for the period January 1, 1952 to June 30, 1952, based on the audited invoices for the 1950 and 1951 calendar years, is estimated to be \$228,226.53. The above liabilities of the Department of Public Health do not appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Reimbursement - Suffolk County Court House - Maintenance: Section 6 of Chapter 474 of the Acts of 1935 commits the Commonwealth to the responsibility of reimbursing the City of Boston 30% of the annual maintenance and operation costs of the Suffolk County Court House which are paid in full from City of Boston funds.

It was noted that on June 30, 1952 the balance of the Appropriation Account "Reimbursement - Suffolk County Court House - Maintenance" amounted to \$30,878.40. On that date, however, the Comptroller's Bureau records indicated that there was a letter dated June 6, 1952 from the office of the Auditor for the City of Boston requesting the Commonwealth to reimburse the City of Boston for its share of the court house costs for the period November 1, 1951 to April 30, 1952 which amounted to \$90,049.93. This reimbursement together with the Commonwealth's share of the costs for the months of May and June 1952 which amounted to \$34,389.22 were not paid until October 1952 from the 1952 - 1953 fiscal year appropriation account. The above facts indicated that a contingent liability of \$93,560.75 existed in the above appropriation account as of June 30, 1952. A statement of the above appropriation account and expenditures for the 1951 - 1952 fiscal year follows:

| | |
|--|--------------|
| Unexpended Balance (1950 - 1951 Fiscal Year) | \$ 76,945 19 |
| Appropriation for 1951 - 1952 Fiscal Year (Chapter 490 - Acts of 1951) | 150,000 00 |
| Total Funds Available | \$226,945 19 |
| Deduct - Expenditures: | |
| Warrant #0507-004 for Period August 1, 1950 to May 31, 1951 | \$131,313 67 |

Warrant #1583-007 for Period June 1, 1951 to

October 31, 1951

Unexpended Balance

\$64,753 12 \$196,066 79

\$30,878 40

Grants in Aid: Section 8 of Chapter 118-A of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for assistance to certain aged persons.

An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #3601-20 during the period July 1, 1952 to December 20, 1952 indicated that reimbursements totaling \$17,690,885.98 and applicable to the months of November 1951 through June 1952 had been paid to cities and towns from the 1952 - 1953 fiscal year appropriation. The above liability of the Department of Public Welfare does not appear in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Veterans' Benefits: Section 6 of Chapter 115 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for veterans' benefits.

An examination of the expenditures charged to the 1952 - 1953 fiscal year appropriation item #3501-11 during the period July 1, 1952 to November 30, 1952 indicated that reimbursements totaling \$1,641,972.36 and applicable to the months of January, February, March, April, May and June of the year 1952 had been paid to cities and towns from the 1952 - 1953 fiscal year appropriation. On July 1, 1952, the unexpended balance of the previous fiscal year's appropriation amounting to seventy cents was brought forward, but no record of the above 1951 - 1952 fiscal year liability of the Commissioner of Veterans' Services appears in the abstract of the 1951 - 1952 annual report of the Commission on Administration and Finance.

Corporation Tax Receipts: An examination of the Commission's abstract of the annual report (House No. 500) for the fiscal year ended June 30, 1952 indicates that the Commonwealth's Share of a Distribution of Corporation Taxes dated June 20, 1952, of which the sum of \$5,000,000.00 was due the General Fund as of June 30, 1952, was omitted from Statement IX "General Fund - Comparative Statement of Surplus for 1952 and 1951" which reports a surplus of \$9,805,674.86 as of June 30, 1952. An analysis of the cash payments appearing in Statement XIV "Corporation Taxes - Receipts and Payments" supports the fact that the cities and towns was paid its Share of the Distribution of Corporation Taxes dated June 20, 1952, which amounted to \$25,000,000.00 prior to the close of the 1952 fiscal year. An analysis of the cash payments for the 1952 fiscal year follows:

| | |
|--|------------------------|
| Abatements | \$ 1,113,149 69 |
| Transfer to General Fund (Commonwealth Share of Distribution dated December 27, 1951) | 1,000,000 00 |
| Distribution to Cities and Towns (Share of Distribution dated December 27, 1951) | 5,000,000 00 |
| Distribution to Cities and Towns (Share of Distribution dated June 20, 1952) | <u>25,000,000 00</u> |
| Total Payments | <u>\$32,113,149 69</u> |

In connection with the above Agency Funds due the General Fund as of June 30, 1952, it appears that an additional \$2,193,790.07 less a reserve for tax abatements will be paid the General Fund as the Commonwealth's share of the Undistributed Agency Funds of Corporation Taxes on hand June 30, 1952, which will be distributed in accordance with Chapter 58, Section 20 of the General Laws (Tercentenary Edition).

Below is a statement of the Commonwealth's Share of the Undistributed Agency Funds as appearing in Statement XIV "Corporation Taxes - Receipts and Payments" for the fiscal year ended June 30, 1952.

| | |
|--|------------------------|
| Balance June 30, 1952, per Statement | \$18,162,740 44 |
| Deduct: | |
| Unpaid Commonwealth's Share of Distribution dated June 20, 1952 | <u>5,000,000 00</u> |
| Balance Available for Distribution to Cities and Towns and Commonwealth | <u>\$13,162,740 44</u> |

| | |
|--|------------------------|
| Commonwealth's Share - One Sixth | \$ 2,193,790 07 |
| Cities and Towns Share - Five Sixths | 10,968,950 37 |
| Total Available for Distribution before Provision for Tax Abatement | <u>\$13,162,740 44</u> |

General: As a result of the omission of these liabilities from the reports of the Commission on Administration, Statement VIII, page 20 of House No. 500 for the 1952 fiscal year, shows a surplus of \$9,805,674.86 in the General Fund; Statement XII, page 24, shows a surplus of \$4,703,012.42 in the Old Age Assistance Fund, and Statement XIII, page 26, shows a deficit of \$1,849,965.47 in the Veterans' Services Fund. If proper effect had been given to those obligations in each of these statements, these funds would have all shown deficit balances as of June 30, 1952, including the General Fund even if consideration had been given to the Corporation Tax Receipts previously mentioned.

Apparent Excessive Charges to Income Tax Agency Fund: As the result of the Commission's interpretation of appropriation item #1301-56 appearing in Chapter 307, Acts of 1949; Chapter 580, Acts of 1950; and Chapter 490, Acts of 1951, Income Tax Agency Funds totaling \$687,689.62, which properly would have been available for distribution to the cities and towns under Chapter 62 of the General Laws (Tercentenary Edition) has been permitted to accumulate in Appropriation Account #1301-56 "Reimbursement of Certain Cities and Towns for Part of the Cost of Construction of School Projects" to be disbursed for 1953 fiscal year expenditures. The excess funds in the above account on June 30, 1952 resulted from the Commission's action of transferring funds from the Income Tax Agency Fund to the General Fund in excess of the actual expenditures paid from the General Fund for the period July 1, 1949 to June 30, 1952.

Excerpts from the Acts of 1949, 1950 and 1951 applicable to appropriation item #1301-56 are listed below:

Chapter 307, Acts of 1949:

"1301-56 For reimbursement of certain cities and towns for part of the cost of construction of school projects, as authorized by chapter six hundred and forty-five of the acts of nineteen hundred and forty-eight; provided, that a sum equivalent to the expenditures under this item be transferred to the General Fund from the receipts of the income tax
\$600,000.00"

Chapter 580, Acts of 1950:

"1301-56 For reimbursement of certain cities and towns for part of the cost of construction of school projects, as authorized by chapter six hundred and forty-five of the acts of nineteen hundred and forty-eight as amended, to be in addition to any amount heretofore appropriated for the purpose; provided that a sum equivalent to the expenditures under this item be transferred to the General Fund from the receipts of the income tax \$1,000,000.00"

Chapter 490, Acts of 1951:

"1301-56 For reimbursement of certain cities and towns for part of the cost of construction of school projects, as authorized by chapter six hundred and forty-five of the acts of nineteen hundred and forty-eight as amended, to be in addition to any amount heretofore appropriated for the purpose; provided, that a sum equivalent to the expenditures under this item be transferred to the General Fund from the receipts of the income tax. \$1,400,000.00"

A statement of the appropriation account #1301-56 "Reimbursement of Certain Cities and Towns for Part of the Cost of Construction of School Projects" for the period July 1, 1949 to June 30, 1952 follows:

| Fiscal Year | Appropriation from General Fund | Balance Brought Forward | Expenditures from General Fund | Transfers from Agency Fund to General Fund |
|-------------|---------------------------------|-------------------------|--------------------------------|--|
| 1950 | \$ 600,000 00 | - | - | \$ 600,000 00 |
| 1951 | 1,000,000 00 | \$600,000 00 | \$1,151,215 57 | 1,000,000 00 |
| 1952 | 1,400,000 00 | 448,784 43 | 1,161,094 81 | 1,400,000 00 |
| | | | <u>\$2,312,310 38</u> | <u>\$3,000,000 00</u> |

The Commission's action of transferring funds from the Income Tax Agency Fund equivalent to the annual appropriation instead of the annual expenditures appears to be contrary to the intent of the above statutes. It is recommended that the Commission take steps to comply with the statutes or request the Legislature to amend these statutes so as to permit the transfer of the annual appropriation from the Income Tax Agency Fund to the General Fund.

HIGHWAY FUND: In direct contrast to the manner in which the Commission has reported the status of the aforementioned funds, the Commission appears to have understated the financial condition of the Highway Fund as of June 30, 1952.

An examination of the Commission's abstract of the annual report (House No. 500) for the fiscal year ended June 30, 1952 indicated that Federal Aid Funds Available, amounting to \$24,487,205.36 to be paid to the Commonwealth upon the construction of certain projects from allocations granted by the Federal Government to the Department of Public Works prior to June 30, 1952, were omitted from Statement XI "Highway Fund - Comparative Statement of Surplus for 1952 and 1951". This statement reported a deficit of \$18,057,320.46 in the Highway Fund as of the close of the 1952 fiscal year. The deficit in this fund, as reported by the Commission, resulted from the inclusion of Reserve for Balances Forwarded for \$41,241,505.02 in Statement X "Highway Fund - Fund Balance June 30, 1952" as a deduction from Total Cash and Securities. An analysis of this Reserve account as of June 30, 1952 indicated that it was comprised of outstanding encumbrances totaling \$22,165,477.20 and of unencumbered appropriation balances totaling \$19,076,027.82 available for expenditures in future fiscal periods. Since Federal Aid Funds available to the State on June 30, 1952 are also applicable to both present and future fiscal periods, it appears inconsistent for the Commission to include unencumbered appropriation balances of \$19,076,027.82 in its financial statement and exclude Federal Aid Funds amounting to \$24,487,205.36 from this same financial statement.

A statement of Federal Aid Funds available to the Department of Public Works as of June 30, 1952, follows:

| | |
|--|------------------------|
| Federal Aid Funds Available, July 1, 1951 | \$22,393,109 22 |
| Add: | |
| Supplemental Apportionment - 1952 Fiscal Year | 3,329 00 |
| Regular Apportionment - 1953 Fiscal Year | 8,849,304 00 |
| | <u>\$31,245,742 22</u> |
| Deduct: | |
| Reimbursements for the 1952 Fiscal Year | 6,754,175 87 |
| Federal Aid Funds Released to the Federal Bureau of Public Roads | 4,360 99 |
| Federal Aid Funds Available, June 30, 1952 | <u>\$24,487,205 36</u> |

Analysis of Federal Funds Available

June 30, 1952

| | |
|--|------------------------|
| Current: | |
| Accounts Receivable (Completed Construction) | \$ 748,220 54 |
| Deferred: | |
| Contract Agreement (Incompleted Construction) | 8,548,777 44 |
| Projects in Plan, Specification and Estimate Stage | 7,758,375 60 |
| Projects in Program Stage | 4,523,695 80 |
| Unprogrammed | 2,908,135 98 |
| Total Federal Aid Funds Available | <u>\$24,487,205 36</u> |

ANNUAL REPORT - VALUATION OF SECURITIES AT MARKET VALUE:

Section 35 of Chapter 7 of the General Laws requires that the annual report of the Commission shall include the following information:

"... In making such report the commission shall estimate the value of securities at their market value at the time of making its report..."

It was noted that neither House No. 500 nor the Comptroller's annual report for the fiscal year ended June 30, 1951 contained this required information. A member of the Comptroller's Bureau indicated that such information was omitted because it would be expensive and impractical to determine the market value of the securities. The statute, however, is specific and mandatory, and should such information be expensive or impractical to obtain, the Commission has no alternative other than to provide it or seek revision of the statute.

PUBLIC DOCUMENT NO. 90: Chapter 7, Section 30 of the General Laws requires that the Division of Personnel and Standardization shall:

"... on or before April fifteenth in each even numbered year, publish a document containing such information concerning said officials and employees in the employ of the commonwealth on the preceding November thirtieth as, in its opinion, may be of public interest. Said document shall contain such summary and comparative tables as will best show the numbers of officials and employees in the service of the commonwealth during the two years preceding said November thirtieth, and during a further period of two years prior thereto, to be arranged in such manner as will make them of the greatest practical utility. . ."

A directive issued by the Commission on Administration and Finance dated March 31, 1942, states as follows:

"In view of the shortage of paper and in line with our policy to curtail the amount of printed material issued by the departments, we suggest that the public interest will be adequately met if, instead of printing annual reports, four typewritten copies are prepared and distributed as follows: one with the Secretary of State, one in the State Library, one in the printing office, and one on file in your department. Any exceptions must have the approval of the Commission on Administration and Finance."

Although a typewritten copy of Public Document No. 90 was filed with the State Library for the years 1944 through 1946 inclusive, no copy was filed with the Secretary of State covering any period beyond 1941.

Inquiry made at the Division of Personnel and Standardization indicates that a report covering the period from 1947 through 1950 is in the process of being typed as of the current audit date.

It is recommended that the report known as Public Document No. 90 be compiled in accordance with the provisions of the statute and be distributed in the manner set forth in the aforementioned directive.

RAPID TRANSIT SURVEY: An examination of the general ledger has disclosed a balance of \$66,862.57 in the Deferred Assessment account.

This item arose as the result of certain resolves passed by the Legislature creating a special commission to make an investigation and study relative to rapid transit in the Boston Metropolitan Area.

In compliance with the aforementioned resolves, the following expenditures were made under appropriations amounting to \$75,000.00, passed in 1943, 1945 and 1946:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|--------------------|
| 1944 | \$ 5,445 75 |
| 1945 | 29,384 62 |
| 1946 | 7,177 20 |
| 1947 | 24,855 00 |
| Total | <u>\$66,862 57</u> |

In Chapter 11 of the Resolves of 1947, which is the latest resolve passed upon the matter, the following paragraph is set forth:

"For the purposes of this resolve, said commission may expend the unexpended balance of the amounts appropriated by item 0268 in section 2 of chapter 736 of the acts of 1945, and item 0268 in section 2 of chapter 617 of the acts of 1946, and said balance is hereby made available for the payment of expenses incurred by said commission. All amounts expended by said commission under authority of this resolve and of said chapter 85 of the resolves of 1945 shall be apportioned equitably among the cities and towns benefited when a rapid transit system is established pursuant to said report, and shall be paid to the commonwealth according to the method of apportionment to be included in the recommendations of said commission."

A report was submitted by the special commission on April 1, 1947 with a draft of legislation to establish and operate the proposed system of rapid transit. However, the balance, \$66,862.57, carried upon the records of the Comptroller's Bureau will remain upon the books until a rapid transit system is in fact established. Since this occurrence may not take place for many years, if at all, it is recommended that legislation be sought to close out the aforementioned amount on the Comptroller's records.

RULES AND REGULATIONS FOR DISPOSITION OF GRIEVANCES: Section 53 of Chapter 30 of the General Laws states in part as follows:

"The commission on administration and finance shall, subject to the approval of the governor and council, make rules and regulations providing informal procedure for the prompt disposition of any grievance of any employee of the commonwealth . . ."

On the date of audit there were no records in the office of the Secretary of the Commonwealth to indicate that the Commission on Administration and Finance had ever filed an attested copy of the rules and regulations required under this statute.

The Commissioner of Administration, in explanation, stated in part in a letter to this Department dated February 4, 1952:

"The principal reason for our failure to file rules and regulations covering its procedure was because of its extremely limited use for several years following its institution. In view of the informality of the Board in its very limited number of cases which have been heard before it, it was felt that the operation of the Board under rules drawn up by this Commission might be handicapped in its handling of the very rare instances of appeals made to it by aggrieved employees."

The foregoing explanation, in our opinion, does not relieve the Commission on Administration and Finance of its responsibility to comply with Chapter 30, Section 53, of the General Laws.

It is recommended that the Commission either comply with the statute or initiate legislation to amend it.

MINUTES OF THE COMMISSION'S MEETINGS: An examination of the minutes of the Commission's meetings was made. It was noted that they are of an informal nature and are not signed by the Chairman, nor is there a secretary of the Commission.

SURETY BONDS: An examination of the bonds on hand November 13, 1952, with the Purchasing Bureau as surety for vendors' annual contracts with the Commonwealth, indicated that \$6,000.00 of United States Savings Bonds were on hand in the name of a contractor who had failed to submit an assignment making these bonds payable to the Commonwealth in the event the contract agreement was not properly fulfilled. This fact was brought to the attention of the custodian of the surety bonds and it is understood that action will be taken by the Purchasing Bureau to obtain the above document.

SUMMARY: A study of the comments contained in this report will clearly indicate --

1. That the Commission on Administration and Finance in failing to comply with the statutory provisions of Section 34 of Chapter 7 of the General Laws, has overstated the June 30, 1952 balances in the General Fund, the Old Age Assistance Fund, and the Veterans Fund. It is worthy of comment that the budget now before the General Court is based on these overstated balances as reported by the Commission.

2. That the Commission on Administration and Finance, in reporting the balance in the Highway Fund, has completely reversed the procedures used by them to determine the balances in other funds and have understated the balance in the Highway Fund.

3. For unexplained reasons, the Commission did not transfer \$5,000,000 from the Agency Fund to the General Fund until after June 30, 1952.

4. That on June 30, 1952, the Commonwealth owed the cities and towns in reimbursements an amount totaling \$37,019,553.62, representing expenditures made by the cities and towns dating back as far as September 1950. Certainly intelligent local government planning is impossible under these circumstances.

5. That the Commission on Administration, by a bookkeeping entry exactly contrary to the provisions of the statutes, has withheld from the cities and towns \$687,689.62 which should have been distributed to them as their share of receipts from income taxes.

6. Despite the mandatory provisions of Section 35 of Chapter 7 of the General Laws, the Commission on Administration and Finance has not included in its report an estimate of the values of securities held by the Commonwealth at their market value at the time of the Commission's report.

7. That despite the mandatory provisions of Section 30 of Chapter 7 of the General Laws, the Division of Personnel within the Commission on Administration and Finance has failed to report semi-annually the number of employees in the service of the Commonwealth as of November 30th.

8. That despite the mandatory provisions of Section 53 of Chapter 30 of the General Laws, the Commission on Administration and Finance has never set up rules and regulations covering the disposition of employee grievances.

TEWKSBURY STATE HOSPITAL AND INFIRMARY

REPORT NO. 53-56

General: For the past several years the regular audits of the accounts of this institution have been hampered and unnecessarily delayed because of various shortcomings in the bookkeeping and record maintenance. These conditions have been specifically and generally brought to the attention of those that should be concerned and interested in the audit reports of the referred to respective examinations. In connection with the current examination rather than noting an improvement, as would normally be the case, conditions have developed to a point where they are practically chaotic, and have rendered the routine completion of this audit practically impossible. Among the situations which were noted the following are shown:

1. The general ledger had been posted only through June 1952
2. The accounts receivable ledger had been posted only through June 1952
3. The special pay roll bank account had been reconciled with the bank statements only through the month of March 1952
4. Several of the Comptroller's monthly statements of receipts could not be located to be made available for audit
5. Many entries in the state cash book had been defaced or obliterated with a lead pencil
6. No trial balance of the patients' funds had been taken since the date of the previous audit, October 17, 1951
7. The state cash book had been short in the amount of \$400.00 because of an

error in the footings of the cash book, without institution personnel making the necessary adjustments

8. It was not possible to balance the cash in the Community Store account until two weeks after the inception of the audit
9. In order to determine the check book balances as of the date of audit, it was necessary to analyze the check book transactions since the date of the previous examination in the accounts pertaining to the funds of the state, patients and Community Store
10. Checks are not issued in chronological sequence, making it extremely difficult to establish the balances on deposit as of any given date
11. Records were not properly or conveniently filed and in some instances it was virtually impossible to have them available for audit when and as required
12. A farm sales book could not be located, making it impossible to satisfactorily reconcile the farm sales with the monthly financial reports and the annual farm report
13. Patients' receipt book #4960 could not be located and was, therefore, unavailable for audit
14. There was no adequate receiving record in the Community Store
15. Community Store cash receipts are not entered daily. On the date of audit, receipts between October 1, 1952 and November 10, 1952 had not been entered in the cash book

Balancing of Cash: As an indication of the conditions which prevail, the following indicated the variances noted in the several cash accounts as of the date of audit:

| <u>Account</u> | <u>Shortages</u> | <u>Overages</u> |
|-----------------|------------------|-----------------|
| State | \$547 05 | - |
| Inmates | 50 67 | - |
| Community Store | 01 | - |
| Post Office Box | 15 14 | - |
| Locker Key | - | \$ 29 77 |
| | <u>\$612 87</u> | <u>\$ 29 77</u> |
| Net Shortages | - | 583 10 |
| | <u>\$612 87</u> | <u>\$612 87</u> |

In connection with the foregoing, attention is directed to the fact that errors noted while the audit was in progress had the effect of increasing the shortage in the state accounts to \$585.56 and that in the inmates' accounts to \$130.23.

Balance of Cash - Close of Audit: As of February 6, 1953, another attempt was made to balance the various cash accounts. On this date it was again noted that conditions were comparable with those noted as of November 10, 1952, and it was again impossible to immediately reconcile these cash accounts.

Outstanding Checks: It was again noted that there were still outstanding in the State, Inmates and Community Store accounts, checks which had been in this category for a period in excess of one year. It is suggested that they be disposed of in accordance with the instructions included in the Comptroller's Bureau Accounting Manual.

Check Found in Treasurer's Office: As an example of extremely ineffective organization, attention is drawn to the fact that there was found in the cash drawn an undeposited check in the amount of \$1,279.95. This check which was drawn by the State Treasurer payable to this institution on June 25, 1952, was still being carried in an "unknown" category simply because no one appeared to know for what purpose the item was intended. This matter was speedily explained after the audit started by a simple

inquiry to the State Treasurer's office. Obviously this item should have been identified immediately after its receipt.

Currency in Office: On the date of audit there was found in the office currency totaling \$12,056.08. This is, of course, much more than can be possibly necessary. It is also suggested that for safety's sake the amount of such funds should be reduced to an absolute minimum.

In order to effectively permit the keeping of smaller amounts of cash on the premises, it is recommended that consideration be given to having some one other than the institution treasurer make bank deposits in Lowell.

Attention is called to the fact that pay roll checks in certain instances are being cashed by the Treasurer's Office. This, of course, severely handicaps the operation in the Treasurer's Office and a study should be made of the possible elimination of this practice.

State Cash - Advance Money: Attention is directed to the fact that on the date of audit there was still on hand advance money of the 1952 fiscal year in the amount of \$5,044.40. This amount should have been returned to the State Treasurer on June 30, 1952.

Pay Roll Bank Account Reconciliation: Earlier in this report it was indicated that the pay roll account had not been reconciled since May 1952. In this connection it was noted that this work was being brought up to date by institution employees other than the pay roll clerk. These individuals are working after their regular hours on this project and during this audit period have been paid a total of \$503.95 for overtime.

Institution Income: Because of the conditions heretofore indicated, the various income records were not made available for examination until January 30, 1953 - almost three months after the inception of the audit and at that time, because of the condition of the records, it was still necessary to ignore the accounts receivable ledger in establishing the charges and credits for the audit period.

Notices requesting confirmations of balances outstanding were mailed to all open accounts where an address appeared to be available. As a result, several were returned with questions, etc., which were answered or otherwise adjusted. One notice was returned indicating that it had been paid on September 5, 1950, more than two years before the date of the notice. This item in the amount of \$38.51 was traced to the records and it was actually determined that it had been paid on or about that date, although no entry appeared for its payment on the institution cash book. There appeared to be no alternative in this matter other than to add this amount to the already large cash shortage noted on the opening date of the audit.

Employees' Maintenance Charges: Verification of this income was also finally determined to be impossible because of the absence of adequate records. In this connection attention is directed to the fact that the potential income from these sources, after taking into consideration all known adjustments, totaled \$41,007.04. Yet, the records indicated that only \$36,207.52 was collected, leaving an unaccounted and unidentified variance of \$4,799.52.

Farm Accounts: In examining the farm report, it was noted that items reported of spoilage and shrinkage appear unreasonably low. As a matter of fact, only two vegetables indicated any transactions in this respect - carrots and winter squash. It is pointed out that this situation is definitely not a normal one.

It was also noted that the respective control accounts in the general ledger did not agree with comparable items in the annual farm report, as follows:

| | Per General Ledger | Per Farm Report |
|-------------------------------|-----------------------|--------------------|
| Farm Storage, January 1, 1951 | \$ 12,038 18 | \$ 16,286 90 |
| Farm Production | 190,636 17 | 186,387 45 |
| Farm Products to Storeroom | 144,160 57 | 143,928 38 |

Attention is further directed to the fact that the records indicate that milk was produced at an average cost of \$.1433 per quart and eggs at an average cost of \$.5098 per dozen.

Patients' Funds - Balance of Cash: It was noted in balancing the state cash that there was included with it \$138.00 which belonged to the patients' fund. It was also noted that check number 873, which appeared on the records as having been issued for \$31.00, was actually issued and paid by the bank at \$144.00. It was also noted that an item of \$25.00 which was deposited to the credit of the State cash could properly have been credited to this fund. These transactions should, of course, be adjusted forthwith.

It was further noted that an amount totaling \$1,392.76 belonging to the patients' funds had been included with State income. This was occasioned by an error wherein instead of turning over certain checks, only a part of which was attributable to board or State income, there was added the total of all the checks. This matter should also be adjusted as soon as possible.

Patients' Old Age and Social Security Checks: It is suggested that the arrangements for handling patients' individual Old Age Assistance and Social Security checks be improved. Presently these checks are received from the various communities or from the Federal Government on behalf of the respective patients by the State Department of Public Welfare in Boston. They are subsequently brought to this institution, by a representative of that department, for individual endorsements and for entry by a clerk in the record office. Subsequently a distribution of the proceeds of the checks is made between the treasurer of the institution on account of the Patients' Fund and the State Department of Public Welfare on account of Patients' board. Needless to state, this arrangement is quite complicated and it is, therefore, suggested that the problem be studied so that the entire arrangement may be simplified.

Checking Patients' Fund Receipts: With the exception of one book which could not be located for audit, all items appearing in these patients' receipt books were checked to the cash book. In this connection, the following errors in posting were noted:

| <u>Slip No.</u> | <u>Date</u> | <u>Over</u> | <u>Short</u> | <u>Remarks</u> |
|-----------------|-------------|----------------|----------------|-------------------|
| 8073-15 | 6-18-52 | - | \$70 00 | Not on cash book |
| 8072-20 | 4-18-52 | - | 8 00 | Not on cash book |
| 6814-8 | 12-22-51 | \$ 10 | - | Posting error |
| 6814-42 | 2-9-52 | 1 00 | - | Posting error |
| 8071-43 | 5-10-52 | 1 00 | - | Posting error |
| 6815-18 | 7-18-52 | - | 5 00 | Not on cash book |
| 6818-35 | 10-29-52 | 1 51 | - | Duplicate posting |
| 6247-14 | 7-2-52 | 03 | - | Posting error |
| 6263-22 | 11-15-51 | - | 20 | Not on cash book |
| | | <u>\$ 3 64</u> | <u>\$83 20</u> | |
| Net Shortage | | <u>79 56</u> | <u>-</u> | |
| | | <u>\$83 20</u> | <u>\$83 20</u> | |

It is suggested that an effort be made to identify the causes of the foregoing and that steps be taken to avert recurrences.

Patients' Bankbooks: At the time of the previous audit it was noted that 12 bankbooks belonging to deceased inmates had been sent to a Public Administrator in Lowell for collection or probating and the institution treasurer was advised to arrange for the return of these books as the law provided for the method of their collection. However, nothing was done in this regard until the matter was again criticized while this audit was in progress, when they were returned. Section 2E of Chapter 295 of the Acts of 1936, as amended, provides for the handling of bankbooks of deceased inmates, and it is suggested that steps be taken to dispose of them in accordance with this statute. These books, with total balances of \$2,358.56, are as follows:

| | |
|-----------------------------|---------|
| Dec. 12/21/42 | |
| Williamstown National Bank | \$ 4 33 |
| Hoosac Savings, North Adams | 2 82 |
| North Adams National | 3 00 |
| Dec. 12/22/38 | |
| Webster & Atlas National | 510 24 |

| | | |
|--------------------------------------|----|-------------------|
| Dec. 8/4/39 | | |
| The National Shawmut of Boston, | | |
| Arlington Street Branch | \$ | 710 12 |
| Dec. 11/11/32 | | |
| In the name of ----- | | |
| Woonsocket Trust Co. | | 1 47 |
| Dec. 10/17/41 | | |
| Merchants National Bank, New Bedford | | 219 20 |
| Dec. 4/21/44 | | |
| Dorchester Savings Bank | | 128 00 |
| Dec. 3/21/49 | | |
| Boston Five Cents Savings | | 31 17 |
| Dec. 6/18/48 | | |
| Salem Five Cents Savings | | 95 71 |
| Dec. 2/7/50 | | |
| In the name of ----- | | |
| Brookline Savings Bank | | 640 82 |
| Dec. 9/22/50 | | |
| Salem Savings Bank | | 11 68 |
| | | <u>\$2,358 56</u> |

In addition to the foregoing, there were other bankbooks on hand belonging to deceased patients. These books should also be disposed of in accordance with the aforementioned statute.

Deposits of Patients' Funds: Attention is called to the fact that the cash balance of this Fund as of the date of audit totaled \$40,214.06. Of this amount, approximately \$26,250.00 was on deposit in three commercial accounts where they, of course, earn no interest. It is again suggested that steps be taken to deposit or invest all funds beyond that amount which is required for a normal working account so that interest may be earned.

Patients' Fund Trial Balance: Attention is called to the fact that in taking a trial balance of the individual patients' ledger accounts, deficiencies totaling \$402.93 were noted. No effort was made in connection with this audit to identify the causes of this variance as the time involved would have been most prohibitive. It is suggested, however, that the institution take steps to locate and adjust these variances. After this account is adjusted, trial balances should be regularly taken at least once each month.

Accounts with Patients no Longer in Institution: All accounts with patients were analyzed and it was noted that approximately 40% of the fund balance belongs to patients who are deceased, discharged, or escaped. This certainly indicates a complete lack of co-ordination between the discharge office and the bookkeeping office which should be promptly controlled.

Immediate steps should also be taken to return the funds to their rightful owners and in instances where this is impossible, they should be disposed of in accordance with due process of law, etc.

Community Store Income: Attention is again called to the fact that on the date of audit, receipts had not been entered in the cash book since October 1. Memorandum records of income were being recorded on loose slips of paper. This arrangement should be corrected forthwith as the possible implications must be obvious.

It is also suggested that bank deposits should be made more frequently. At present, they are being made weekly so that considerable sums of currency are permitted to accumulate in the office.

Community Store - Cash Register: The actual cash taken from the cash register daily and the amount indicated by the register tapes are entered in the cash book.

These amounts are never in agreement and occasionally vary as much as \$15.00. This variance does not represent, as it would appear, a cash shortage or overage for any particular day. Actually it results from not taking the cash count simultaneously with the register reading. At the close of each day the employee in charge of the store counts the cash and places it in a bag for the treasurer's collection the following morning. Each morning the treasurer takes the cash in that bag together with the register tape as of that moment. Because of this the sales of that morning also appear on that tape. This arrangement creates a variance between the tape readings and the cash by the total of the sales of the morning to that time.

This system is most unbusinesslike and should be changed so that the count and the tape may be taken simultaneously.

The net cash variance for the audit period between the cash receipts and the cash register tapes was \$82.91.

Community Store - Outstanding Checks: It was noted that there are 9 checks outstanding in this account which have been outstanding prior to the 1949 fiscal year. Arrangements should be made to stop payment on them and add the proceeds to the Community Store Fund.

Community Store - Invoices Payable: Because invoices are allowed to accumulate for periods in excess of one month before entry or payment, valuable cash discounts are lost. It is suggested that invoices be processed for payment currently so that discount terms may be taken advantage of.

Community Store - Receiving Book: The receiving book presently in use in the Community Store is most inadequate for its needs, as generally it indicates only the date and name of the firm. Delivery slips which are occasionally left by the vendors are supposedly checked to invoices received, but it is understood that they are destroyed at the end of each month. In not all instances are delivery slips left by vendors or their representatives, and in this connection it was noted that the largest resource did not make it his practice to leave delivery slips with merchandise. In this case particularly, it is wondered how the invoices received were checked with any degree of accuracy before they were paid.

It is, therefore, recommended that an actual receiving book be installed at once and that every item on each delivery slip be entered in it together with the date received, vendor's name and cost. This will provide a source for completely checking each bill received.

Community Store - Bottle Deposits: When bottled beverages are sold, a deposit of \$.02 is required for each bottle taken from the premises. This deposit money is kept separately from the regular cash receipts. When they are returned a refund is made from this fund. It was noted that more bottles are returned than are sold, because of visitors bringing to the institution grounds beverages purchased elsewhere. This arrangement has occasionally depleted the deposit fund. In these instances, the store clerk takes \$.50 from the cash register and adds it in the deposit fund after making a memorandum of the transaction for the treasurer's purposes. The cash book, however, does not properly reflect this transaction because the amounts are deducted from the register tapes and the difference is entered on the cash book as sales for that day. It is suggested that henceforth this type of transactions should be handled as follows:

- Enter the amount of the cash register tape as shown.
- Enter the cash receipts as the total of the cash per count plus the amount deducted for the bottle fund.
- Enter the amount taken from the cash register in the "Cost of Goods Sold" column in the cash book.

Community Store - Inventory Shortage: In connection with this audit, a complete physical inventory of the merchandise in this store was taken. Using this inventory as a base, it was attempted to verify the store's sales for the audit period. As a result, a shortage was noted of \$4,206.69, which is substantial in relation to sales during the period of audit of \$48,753.34.

This shortage could not be located nor could its causes be identified even though a considerable length of time was expended in making an exhaustive examination of all facts of this activity.

Community Store - Checking Selling Price Extensions: All invoices received were checked as to selling price extensions. In this connection more than 150 errors - both mathematical and clerical were noted. More care should be exercised in this respect if any semblance to accurate record keeping is expected to be approached.

It was noted that daily newspapers returned as unsold are credited on the following month's bill. No credit is taken in the "Merchandise at Selling Price" column for these amounts which, of course, affects inventory control system also.

DIVISION OF THE BLIND

REPORT NO. 53-57

Relocation of the Division of the Blind: In June 1952 the offices of the Massachusetts Division of the Blind were moved to new quarters at 90 Tremont Street, Boston, where they now occupy the entire fifth floor. The annual rent of this new location is \$13,200.00.

Relocation of Fall River Workshop: In March 1952 the Fall River Workshop was moved to 991 County Street, Fall River. The annual rent of this new location is \$3,780.00.

Fall River Workshop: It was noted that no provision was made for keeping money at the Fall River Workshop, therefore one of the employees was taking it home for safe-keeping. During the progress of the audit a "Master Safe" was requisitioned for this location.

It was also noted that bank deposits are being made bi-monthly. It is suggested that these deposits be made at more frequent intervals in accordance with existing directives.

Suspense Accounts Receivable Account: Although there was no activity in this account during the current audit period, it was noted that a letter was received by the Division on November 16, 1952 from the Attorney General's Office, authorizing the Division to charge off eight accounts totaling \$46.93.

Accounts Receivable - Overdue Accounts: On the date of audit there were outstanding overdue accounts receivable amounting to \$2,949.16 for the year 1950 and prior years. Even though only a small number of these accounts are active, no accounts had been turned over to the Department of the Attorney General for collection, etc. during the current audit period.

It is suggested that those accounts which appear to be uncollectible or difficult of collection be turned over to the Department of the Attorney General for action. These accounts when thus turned over should also be transferred to "Accounts Receivable Suspense Account" in accordance with instructions in this regard in the Comptroller's Manual. These accounts include the following:

| | 1950 | 1949 | 1948 | 1947 and Prior | Totals |
|--------------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| Cambridge Industries | \$620 50 | \$213 34 | \$437 46 | \$1,169 57 | \$2,440 87 |
| Woolson House Industries | 14 38 | 48 46 | 171 56 | 7 00 | 241 40 |
| Piano and Mattress | 102 80 | 97 10 | 36 54 | 12 00 | 248 44 |
| Lowell Shop | 15 70 | - | - | - | 15 70 |
| Pittsfield Shop | - | 2 75 | - | - | 2 75 |
| | <u>\$753 38</u> | <u>\$361 65</u> | <u>\$645 56</u> | <u>\$1,188 57</u> | <u>\$2,949 16</u> |

Stock Ledger Balances - Cambridge Industries: A physical inventory of raw materials and finished goods was taken on November 10, 1952. A comparison of the balances of the items inventoried with the unit balances as appearing in the stock ledger on that date indicated many variances. In this respect, shortages were found in the raw materials accounts and overages in the finished goods accounts. In this connection, a large unexplained variance was noted in the #6 Brooms account wherein the stock ledger indicated that there should have been 41 8/12 dozen on hand, while the physical inventory showed 151 9/12 dozen, an overage of 110 1/12 dozen. A comparison of the book inventory with the physical inventory taken by the Division at June 30, 1952 of this item also reflected variances and on that date, these brooms showed an overage of 84 8/12 dozen.

No adjustments of the difference between the book and physical inventories were made by the Division as a result of the inventory taken on June 30, 1952. The book

inventory figures at June 30 were simply discarded, and the correct physical inventory balances were entered on the new stock ledger with no accounting for the differences.

Unless the stock ledger correctly reflects all items, there would appear to be little or no purpose in maintaining it.

It is, therefore, recommended that a more competent control be maintained over the issue of raw materials and finished goods and that production items be correctly recorded. It is further recommended that the variances between the book inventory and the physical inventory be adjusted in conformance with routines outlined in the Comptroller's Accounting Manual.

Cash Sales - Cambridge Industries: It was noted that a single cash sales slip was being used for several cash sales. The names of the purchasers and the identity of the person who received the money were also not recorded on the sales slips.

It is suggested that one sales slip be used for each sale and that it should include the names of the purchaser and the person accepting the money.

It was noted that in certain instances, the individual who sold the materials, etc. also collected the cash. This practice has been changed, and now cash is accepted only in the business office while the sale is actually effected by a stock clerk. The purchaser now also receives a copy of his sales slip.

Adjustments: It was suggested that all stock ledger adjustments, etc. be signed by an authorized employee.

Jean M. BeBrun Fund: Income from the investment of this fund was \$50.00 for the audit period. The expenditures were \$55.00 during the same period leaving a balance of income in the fund of \$62.19 on November 10, 1952. This fund is administered by the Director for higher education of blind students.

Michael F. McCarthy Fund - Pittsfield Shop Fund: The Pittsfield Shop was made a beneficiary under the will of the late Michael F. McCarthy. The Attorney General has ruled that the income derived from this fund must be used only for the benefit of the Pittsfield Shop. Income from this fund was \$800.00 for the audit period. There were no expenditures during this period and the fund balance on the date of audit totaled \$7,145.15.

Educational Purposes Fund: Cash donations of \$35.00 with no restrictions were received during the current audit and were deposited to the credit of this fund. This money, it is understood, will be expended in accordance with the provisions made in the statute which sets up the Educational Purposes Fund.

Federal Participation - General Administration: At present and in accordance with the approved plan of Federal participation in the expenses for "General Administration, Aid to the Blind", one half of 5% of the salaries of the personnel in the bookkeeping department is reimbursed by the Federal Government. Of the expenses for rent and light one half of 32% is paid by the Federal Government. One half of 50% of the telephone expense is reimbursed to the State. The salaries of other members of the personnel are reimbursed on the basis of 50% of the following percentages:

| | |
|-------------------------------------|-----------------------|
| Director | 22% |
| Secretary to the Director | 22% |
| Telephone Operator | 50% |
| Junior Clerk | 22% |
| Junior Clerk and Stenographer | 22% |
| Assistant Supervisor of the Blind | 100% |
| Senior Workers with the Blind (9) | 100% |
| Senior Worker with the Blind | Variable (50% to 75%) |
| Guides to Blind Workers (5) | 100% |
| Senior Statistical Clerk | 100% |
| Junior Clerks and Stenographers (2) | 100% |
| Junior Clerk and Typist | 10% |
| Worker with the Blind | 95% |

General: A report of a Special Commission established to "Make a Study of Certain Matters Relating to the Blind" was issued in December 1950 as House Document No. 1951.

As a result of this report the Legislature enacted Chapter 676 on September 11, 1951 amending certain sections of Chapter 15 of the General Laws. Briefly, the new law establishes within the Division of the Blind five Bureaus as follows:

Bureau of Medical Care
Bureau of Individual Services
Bureau of Rehabilitation
Bureau of Industrial Aid and Workshops
Bureau of Research

This new law also makes the Director "the executive and administrative head of the Division". It also states that "the advisory board shall exercise advisory powers only".

Chapter 673 also enacted on September 11, 1951 but containing an emergency preamble, amends Chapter 69 of the General Laws. This Act defines the duties of the Director and the new Bureaus.

On the date of audit the reorganization, in accordance with Chapter 676 of the Acts of 1951, was not completed.

UNIVERSITY OF MASSACHUSETTS

REPORT NO. 53-58

Cash Over and Short: The previous audit report recommended that steps be taken to clear certain cash shortages which were indicated by the records of the University Treasurer. As a result, the University Trustees' Committee on Finance on April 23, 1952 voted to authorize the canceling of the accumulated cash shortages totaling \$189,49 by transfer from unarmarked trust fund balances. It was further voted that the Treasurer be ordered to report petty cash shortages to the Trustees at the end of each fiscal year.

In connection with this matter, it was noted that a cash overage of \$48.85 as of June 30, 1952 was also transferred to unarmarked trust fund balances with the approval of the Trustees.

It is recommended that the Commission on Administration and Finance survey these transactions and suggest proper procedures.

Advance Funds: It was noted that the University Treasurer was advanced only \$12,000.00 for the purpose of making income refunds. Because this amount was insufficient, the fund was overdrawn in February 1952 by \$4,994.57 and in March 1952 by \$10,405.40. It is recommended that the University Treasurer henceforth anticipate the requirements of this fund and arrange that cash balances be maintained at all times.

Boarding Hall Materials and Supplies: A physical inventory of materials and supplies in the Boarding Hall storeroom was taken on September 3, 1952, and resulted in shortages of \$55.60 and overages of \$111.29. The control account in the general ledger was analyzed for the period under audit and it was noted that there were passed through the account adjustments totaling \$2,967.19 of which \$1,816.14 were for shortages and \$1,151.05 represented overages. These differences would appear to be excessive when compared with total issues of \$198,180.35. The following indicates the general type of items on which these adjustments were made:

| | <u>Shortages</u> | <u>Overages</u> |
|----------------------|-------------------|-------------------|
| Meat | \$1,073 88 | \$ 434 19 |
| Dairy | 311 31 | 283 32 |
| General Groceries | 326 55 | 288 98 |
| Fruit and Vegetables | 61 59 | 64 76 |
| Household | 42 81 | 79 80 |
| | <u>\$1,816 14</u> | <u>\$1,151 05</u> |

It is recommended that necessary steps be taken to curtail these differences.

Boarding Hall Controls: The internal bookkeeping and financial controls of the Boarding Halls at this University were reviewed during the previous audit and as a result, certain suggested procedures were given to the manager of the Boarding Halls by the University Treasurer in a memorandum dated January 11, 1952. The progress of these procedures were reviewed in connection with the current examination and it was indicated that some of the conditions had been improved. It was noted, however,

that the following conditions still remain unimproved:

1. Inventories of food are stored at Fisher Laboratory and then are not considered when subsequent purchases of like items are made.
2. There is no adequate control or supervision over the cash registers in the several dining halls, which are in the first instance handled by student employees.
3. Boarding Hall purchase orders are not adequately controlled, so it is practically impossible to accurately determine amounts to be set up as liabilities. Because of this arrangement substantial amounts of liabilities are charged off in subsequent years. This situation inflates the expenditures in the year the liabilities are set up and of course, rules it impossible to accurately prepare budget estimates.

It is, therefore, recommended that immediate steps be taken to correct the foregoing conditions.

Disbursements of Endowment Income: In connection with checking the disbursements from the endowment income account, several items were noted which appear to be questionable charges against the particular funds involved.

While it is recognized that certain endowment funds, particularly the Burnham, Sessions and Wheeler Funds, are not restricted insofar as expenditures are concerned as distinctly as are some of the other funds, it is thought that certain expenditures made from them should have been confined to matters other than the following:

Burnham Emergency Fund

| | | |
|-------------------|---|---------|
| October 16, 1951 | 3 Luncheons | \$ 1 20 |
| October 30, 1951 | 5 Luncheons | 4 75 |
| December 28, 1951 | 3 Luncheons | 2 85 |
| January 15, 1952 | 5 Dinners | 4 75 |
| February 21, 1952 | 6 Dinners | 5 70 |
| February 28, 1952 | 3 Luncheons and 3 Dinners | 27 75 |
| March 26, 1952 | 6 Luncheons | 5 70 |
| April 18, 1952 | 1000 Scholarship Day Programs | 78 00 |
| June 3, 1952 | Advertising for Business Manager | 2 80 |
| June 3, 1952 | X-Ray Employee | 10 00 |
| July 30, 1952 | Dues Massachusetts School Superintendent's Association | 5 00 |

Wheeler Fund

| | | |
|-------------------|-----------------------------------|---------|
| November 9, 1951 | 4 Photographs | \$ 2 00 |
| November 14, 1951 | Legal Fee | 30 60 |
| December 28, 1952 | Tuition Fee, Purchasing Institute | 35.00 |
| February 15, 1952 | 15 Photographs, Dining Hall | 7 50 |
| April 28, 1952 | Book, Trustees Records | 10 50 |

Sessions Fund

| | | |
|---------------|------------------------|--------|
| April 8, 1952 | Book, Trustees Records | \$3 00 |
|---------------|------------------------|--------|

Pooled Endowment Funds: On July 1, 1952, with the approval of the Board of Trustees and the Comptroller's Bureau, the University Treasurer pooled for the purpose of investment all endowment funds and established new controlling accounts in the general ledger.

Annual Inventories - 1951 Fiscal Year: The previous audit report stated in this connection:

"Annual Inventories - 1951 Fiscal Year: The annual inventories of the University submitted to the Treasurer's Office by its various departments were checked to the tabulation of these inventories of

supplies and equipment set up by the property section. It was noted that discrepancies appeared between the tabulation by the property section and the physical inventories taken by the various departments. As the final tabulation of these inventories is used by the University Treasurer in his annual report, it is recommended that the Treasurer instruct the various departments to take and tabulate an actual physical inventory at the close of each fiscal year, and have the tabulation of these inventories carefully checked by the property section before publication."

It was noted that the tabulation of inventories of supplies and equipment of the various departments for the Fiscal Year 1952 by the property section was now in agreement with the departmental inventories.

Charles S. Plumb Fund: The bequest under which this fund was established stated that one half the annual income be awarded each year and the other half of the annual income become part of the original fund for the next fifty years after the plan goes into operation.

The records of the University indicate that no award has as yet been made from this fund, and that one half of the income earned to June 30, 1952 was transferred to the principal account on June 30, 1952. The balance in the income account on August 28, 1952 was \$521.29.

Internal Check and Controls: The previous audit report contained the following suggestions:

"1. Persons engaged in handling of cash should not have access to the ledger accounts or the cash receipts and disbursements journals. Someone other than the cashier should prove the daily cash receipts. In this connection it was noted that the cashier in the Office of the Treasurer now receives and records the cash receipts in the cash receipts journal and has access to the various subsidiary ledgers. The cashier at the close of each day's transactions proves his own cash.

"2. Reconciliation of bank statements should be properly reconciled. In this connection it was noted that the adding machine tapes which contain the listing of checks cleared by the banks were not used for checking purposes.

"3. Deposit slips should be prepared in duplicate and receipted by the bank, and the duplicate should be retained for reference purposes.

"4. It is suggested that a review of the procedure of recording the receipt of goods by the University receiving room, and the processing of all invoices should be made. The present process of sending the invoices to the departments for approval causes much delay in the scheduling of invoices for payment.

"5. It was also noted that personal packages to employees are being received at the University receiving room. This practice should be discontinued and other arrangements made for the receipt of personal deliveries."

It was noted in this connection that the procedures suggested under the first three paragraphs have been adopted.

Inasmuch as no changes have been made with respect to the practices indicated in the last two paragraphs attention is again directed to them.

Sale of Farm Produced Milk: The previous audit report stated:

"Sale of Milk by the University Dairy Department: It was noted that charges were being made for the sale of milk to certain employees of the Dairy and Farm departments. It was understood that these employees are allowed to purchase milk from the Dairy at a cost of 14¢ per quart, and in this connection it was noted that the average weekly sales of milk totaled 170 quarts. Inasmuch as the farm does

not produce a sufficient quantity of milk to supply the needs of the Boarding Halls, they are forced to purchase raw milk from outside sources. Attention is also called to the fact that the most recent bid for the purchase of this milk was 16¢ per quart. Because of the existence of this incongruous situation, it is recommended that the Commissioner on Administration and Finance issue instructions with regards to the sale of home-produced products to employees and others."

As a result of the foregoing the Commissioner of Administration and Finance in a letter dated June 24, 1952 ruled that the price to be charged to individuals who are employees of the University Dairy Department be the same as that charged for comparable milk by retail stores in Amherst. This was applied at the University. The sale of milk is now limited to only a few employees for testing purposes.

Self Liquidating Dormitories and Buildings: Chapter 388 of the Acts of 1939, as amended, authorized the incorporation of the University of Massachusetts Building Association, a non-profit organization for the purpose of constructing, equipping and maintaining buildings for dormitories, commons and other uses connected with this University.

To date of this audit the following buildings have been constructed and equipped by this association and have been leased to the Commonwealth of Massachusetts:

| <u>Unit</u> | <u>Term of Lease</u> | <u>Annual Rental</u> | <u>Accommodates</u> |
|-----------------------------------|----------------------|--|---------------------|
| Lewis and Butterfield Halls | 20 yrs; 1940-60 | \$30,000 00 | 303 Students |
| Chadbourne and Greenough Halls | 20 yrs; 1946-66 | 31,250 00 | 314 Students |
| Mills Hall | 20 yrs; 1947-67 | 24,500 00 | 157 Students |
| Brooks, Hamlin and Knowlton Halls | 24 yrs; 1948-72 | 58,000 00 first) 14 years) 55,000 00 next) 10 years) | 538 Students |
| University Apartments | 25 yrs; 1950-75 | 29,000 00 first) 15 years) 27,500 00 next) 10 years) | 50 Apartments |
| Baker Hall | 25 yrs; 1950-75 | 43,000 00 | 363 Students |

In addition to the foregoing two additional dormitories - presently known as Dormitory Number 10 and Dormitory Number 11 are in the construction stage.

The buildings are on State-owned land which is leased to the association for \$1.00 per year per unit. Funds for the construction of the various units have been realized from the sales of bonds. The issuance of these bonds and the fiscal and legal matters pertaining to them has been managed by the Old Colony Trust Company of Boston and the State Street Trust Company of Boston, who function as trustees and each handle the separate issues of bonds together with all other related matters.

The leases with the University have been so written that the rents received will permit the complete liquidation of the outstanding bonds together with any other expenses which might accrue. It is understood that there will be no surplus from the operation of the properties. The University furnishes heat, electricity and maintains the fixtures and the equipment in the respective buildings. It also provides janitorial services for the stairs and steps, grounds and laundry rooms. Insurance on Lewis and Butterfield Halls, by agreement, is paid by the University while the insurance on the other buildings is the responsibility of the association.

The statutes also provide that:

"Any building so leased shall become the property of the Commonwealth upon the payment in full of all obligations incurred."

None of the records, other than the copies of leases, were examined.

Attention is, however, directed to the fact that the various issues of the bonds were made by the trustees of the association at interest rates which were from 1/2 to 3/4 of a percent higher than bonds issued by the State Treasurer of the Commonwealth during comparative periods. Inasmuch as the amounts of interest paid has a direct bearing on

rents paid and therefore increase correspondingly State expenditures, it is suggested that consideration be given on future construction projects to have them handled entirely by processes available to all institutions over which the General Court has financial control.

METROPOLITAN STATE HOSPITAL

REPORT NO. 53-59

General: The previous audit report commented strongly on the methods of handling the various cash accounts at this institution with particular reference to deposits not being made in accordance with the instructions contained in the Comptroller's Accounting Manual. This situation has been corrected and deposits are now being made at least twice a week. Other suggestions included in the audit report of the previous examination have been acted upon as follows:

- a. The special pay roll bank account reconciliations are now being currently and properly maintained.
- b. Inventory adjustments of \$100.00 or more now bear the proper signatures for approvals, etc.
- c. The four Patients' Fund checks which have been outstanding since 1949 and 1950 have been canceled and the proceeds properly credited.
- d. The trial balance of Patients' Accounts has been adjusted and is now in agreement with the cash balance.
- e. The several inactive patients' accounts which had been filed with active accounts are now included in the inactive file.
- f. The so-called auditor's copy of the Patients' Fund receipts books is now being properly used and all monies received by the several supervisors are turned over to the institution treasurer within one day of receipt.
- g. The amount of \$14.72 was paid from Patients' Funds to reimburse the Canteen Fund for purchases made on account of patients, and which originally had not been correctly charged.
- h. Patients' bankbooks were sent to the respective savings banks for verification. It was also noted that interest has been currently entered on these passbooks by the depositories.
- i. Practically all monies which were on hand belonging to former patients were returned to them by social workers for which proper receipts were received. It was further noted that two bankbooks, one belonging to a deceased patient, and the other belonging to a patient discharged in 1949, were sent to the Department of Mental Health.
- j. Small cash purchases for the canteen are now billed weekly by the vendor and are paid for by check.
- k. Incorrect footings in the May 1951 canteen cash book were adjusted during the current audit period and the canteen general ledger postings are now being currently maintained.

Cash Books: It was noted that entries on State cash books are not being properly made, particularly at the close of each month.

It is suggested that greater care should also be exercised in maintaining Patients' cash books. In this connection there were noted errors in footings of pages, incorrect balances being carried forward to a following page, and entries inked out, etc.

These matters were discussed with the institution treasurer and it is understood that the necessary steps will be taken to correct the existing conditions.

WORCESTER STATE HOSPITAL

REPORT NO. 53-60

Medical Facilities Available to Community - State-Owned Laboratory Supplies and Equipment Issued to Laboratory then Turned Over to a Private Organization: The audit reports for the past several years have included comments in great detail relative to the use of a Commonwealth-owned Electroencephalograph machine, by a former part-time employee of this institution, and for which it was understood a charge was made and paid to a private organization.

These tests were made during the years 1946 to 1949 when the out-patient practice was eliminated, and the last test made with the aforementioned machine for which a charge was made was on June 12, 1949.

These prior audit reports also commented on the fact that certain laboratory supplies and equipment, which had been purchased from this institution's maintenance and Dementia Praecox Research appropriations, which had originally been issued from the institution's pharmacy or storeroom to the institution's laboratory, had also been

given to this same private organization. This practice was terminated in the early part of 1950.

In this connection it was noted that this private organization has continually until the present also been engaged in research at this institution in co-operation with its staff.

Statements of this organization were found in the files of this institution which indicated that it had furnished personnel who were actually working at this hospital, the salaries of whom were paid at the annual rate of \$28,640.00, as of April 22, 1952. It was also noted that it had furnished this institution with equipment of property in use at the hospital valued at \$3,401.87 as of that date, and had also given the institution consumable supplies valued at \$2,160.00 for the eighteen months prior to April 22, 1952.

No determination could be made from the records kept by the institution of the value of Commonwealth owned equipment or supplies used in this research program by employees of the organization although it was noted that one item of equipment, valued at \$230.00, owned by this institution was in use at the headquarters of this private organization as of April 22, 1952.

It was further noted that an employee of this private organization who is presently engaged in a research program at the Worcester State Hospital occupies a room at the institution for which he pays rent. He is also permitted to purchase meal tickets for his use in the institution cafeteria. These arrangements have been approved by both the Department of Mental Health and the Commission on Administration and Finance.

The superintendent of this institution indicated that the mutual projects involved are in the best interests of the people of the Commonwealth and that it should be fostered.

It is suggested that a written agreement between the private organization presently conducting research projects at this hospital and the Department of Mental Health be negotiated, which should specifically state the terms under which the program is to be conducted, together with whatever contributions of personnel, equipment and materials are to be furnished by both parties, insofar as is possible.

In this manner a determination may always be possible at the time of any future questions such as indicated heretofore.

Accounts Receivable: Included with the outstanding accounts receivable on date of audit was an item owed by the Massachusetts Department of Public Works for \$185.00, representing the sale in September 1951 of 1,850 burlap bags at 10 cents each. The verification notice mailed to confirm this account was returned acknowledging a liability of \$50.00 for 500 bags at 10 cents. This matter was discussed with the institution steward who initiated steps to have the matter corrected.

Former Institution Treasurer Living on Institution Grounds: On January 13, 1952 the treasurer of this institution was transferred to a position in the office of the Department of Mental Health in Boston as an Administrative Assistant to the Commissioner. While treasurer he was permitted to rent an apartment on the institution grounds at the rate of \$53.75 per month. It was noted, however, that he still continued to occupy this apartment even though no approval for this continued occupancy appeared to be available in the institution files.

State Receipt Books Unaccounted For: It was noted that four standard receipt books which were in use on the date of the previous examination could not be produced for audit in connection with this examination. As these receipts are necessary in checking certain details it is urged that they be carefully controlled.

Land Conveyed: It was noted that certain parcels of land were disposed of during the audit period by either sale or transfer as follows:

| <u>Sold or Transferred</u> | <u>Area</u> | <u>Price</u> |
|--|----------------|--------------|
| Massachusetts Department of Public Works | 6.75 acres | Transfer |
| United States of America (parcels 2 and 3) | | |
| Parcel No. 2 | 38,650 sq. ft. | - |
| Parcel No. 3 | 57,500 sq. ft. | \$ 1 00 |
| Andrew Arduini | 19,100 sq. ft. | 500 00 |

The foregoing conveyances were all specifically authorized by separate acts of the General Court.

Duplicate Bank Deposit Slips Not Made Out: When deposits of funds are made in the State bank account only one copy of a deposit slip is prepared showing the detail of the deposit. Because this copy is retained by the depository it is suggested that a duplicate copy of bank deposit slips be prepared so that they may be available for use in connection with subsequent examinations.

Meal Tickets for Affiliate Student Nurses Not Traced in Superintendent of Nurses Office: The records indicate that 9,018 meal tickets were used during the current audit period. Of these, 3,432 tickets valued at \$10,296.00 were issued free of charge to affiliate student nurses and others who are entitled to them by virtue of their performing services for the institution without compensation. In all these cases approval for the distribution of these tickets was properly received from the Commission on Administration and Finance. The supply of these tickets is held in the institution treasurer's office and they are distributed to authorized individuals who receipt for them.

These receipts were generally signed by the authorized individual with the exception of those which are assigned to the office of the Superintendent of Nurses for distribution to the affiliate student nurses. It was noted that 2,900 tickets valued at \$8,700.00 had been issued to a clerk in the Superintendent of Nurses office in blocks varying from 1 to 120. These tickets are supposedly controlled by a register kept in the Superintendent of Nurses office and in checking the tickets potentially issued with this record, 238 tickets valued at \$714.00 appeared to be missing. When this matter was discussed with personnel it was learned that at certain times the student nurses are depended upon to make entries for tickets taken.

It is recommended that more care be exercised in the maintenance of this register so that all tickets issued may be traced and their assignments checked.

Refunds Made by Employees and Paid to Institution Treasurer's Office for Personal Telephone Calls Not Promptly Transferred to the State Treasurer: While this audit was in progress, it was found that no refunds on account of personal telephone calls had been recorded on the records of the institution treasurer as having been transferred to the State Treasurer during the 1953 fiscal year. On January 19, 1953 there was offered for audit a box containing a total of \$225.03 which it was indicated represented refunds on personal telephone calls and telegrams for the period from July 1, 1952 to January 19, 1953. This money was in fifteen envelopes and also in loose currency, coins and checks in a metal box. There appeared to be no records available so that this amount could be reconciled.

It is recommended that an accounting of this money be made immediately and that it be transferred to the State Treasurer. In the future refunds should be so handled on a more current basis.

Attention is directed to the fact that this money was not presented for audit on the first date of the audit despite the fact that a specific request was made to make available all cash in the treasurer's office for count.

Funds of Deceased, Discharged and Escaped Patients Included in Active Patients' Ledger Accounts: On date of audit it was determined that there were included with the Active Patients' ledger accounts funds of deceased, discharged and escaped patients which had not been transferred to the inactive accounts as follows:

| | Number of Accounts | Total |
|------------------------|-----------------------|-------------------|
| Discharged and Escaped | 108 | \$2,543 71 |
| Deceased | 98 | 2,103 16 |
| | <u>206</u> | <u>\$4,646 87</u> |

Many of the foregoing accounts were noted to be several years old and dated back to 1948.

It was also noted that the deceased patients accounts included some belonging to patients who died during 1941.

Funds of Deceased, Discharged and Escaped Patients Not Transferred to the Department of Mental Health in Accordance with Statutes: It was noted that there were many accounts belonging to patients who had died, were discharged, or had escaped,

and which had not been transferred to the Department of Mental Health as follows:

| | Number of Accounts | Total |
|------------------------|-----------------------|-------------------|
| Discharged and Escaped | 136 | \$ 375 35 |
| Deceased | 136 | 3,254 66 |
| | <u>272</u> | <u>\$3,630 01</u> |

It is recommended that the funds which are required to be transferred to the Department of Mental Health be so handled immediately.

Funds Received by Institution for Patients' Benefit Not Distributed Promptly: Two checks, dated November 25, 1952 and November 28, 1952, totaling \$154.00 were found in the Treasurer's office which it was learned had been received on December 11, 1952.

These checks which had not been entered were payable to the Superintendent of the Worcester State Hospital and had been donated by a veterans' organization to make funds available at the hospital canteen in individual amounts of \$1.00 for veteran patients.

This matter was discussed with the Superintendent and on January 26, 1953 the checks were properly entered in the Patients' Fund and \$139.00, in amounts of \$1.00 each, was credited to the accounts of various veterans who were hospital patients. The balance of \$15.00 was entered in a "suspense" account from whence it will be made available at a later date for these specific purposes.

Federal Grant - Financial Report Not Filed as Required: Financial reports are required to be filed with the Federal Government semi-annually for periods ending December 31 and June 30. The original and two copies of this report are required by the Public Health Service on or before January 31, or July 31, whichever is applicable. In this connection it was noted that a financial report of the training grant of this institution for the period from July 1, 1951 to June 30, 1952 was not filed until January 13, 1953, and that no financial report was filed for the six months ending December 31, 1951.

TAUNTON STATE HOSPITAL

REPORT NO. 53-61

Rents: The previous audit report indicated that this institution has established a weekly rent rate by multiplying the monthly rate by twelve and dividing the result by fifty-two, and also showed that this method is not accurate.

This arrangement is still in effect and it is understood that the Commission on Administration and Finance is not opposed to its being used.

Accounts Receivable: It was noted that all outstanding accounts receivable balances are current. In accordance with a recommendation in the previous audit report, an overdue amount of \$10.00, which had been on the books for several years was charged off.

Bond Deposit Fund: The bond deposit fund was discontinued and it is understood that it will be revived whenever sufficient interest in it warrants this action.

Farm Accounts: The operating loss for the year 1951, as indicated by the farm report, was \$1,709.12. This is a very substantial improvement over the previous year when an operating loss of \$26,377.64 was reported. This situation is largely due to increased production in the dairy, swine, and poultry projects together with increased farm product prices.

STATE RACING COMMISSION

REPORT NO. 53-62

Unclaimed Pari-Mutuel Tickets: At the date of audit, the value of unpaid pari-mutuel tickets for the 1951 racing season was \$57,677.00. This amount, subject to change because of tickets being redeemed at a later date will be payable to the Commonwealth early in 1953. Checks totaling \$54,043.00 were received from the various associations early in 1952 covering the unpaid pari-mutuel tickets for the racing year 1950.

It is understood that these unpaid tickets are under continuous audit by the commission's accountant until they are finally turned over to the Commonwealth in accordance with statute.

Agricultural Purposes Fund: This fund originates in the receipts from commissions and breakage from racing at fairs and is provided for by Chapter 390 of the Acts of 1947 as amended by Chapter 319 of the Acts of 1948.

The amount of \$110,214.81 which was received as the result of fairs held in the 1952 year has been credited to this fund.

MONSON STATE HOSPITAL

REPORT NO. 53-63

Accounts Receivable: It was noted that accounts receivable in the amount of \$18.85 which had been submitted to the Attorney General for collection are still being carried in the active section of accounts receivable. It is recommended that this amount be transferred to the suspense section in the accounts receivable.

Bonding: The previous audit suggested that the nurse in charge of the patients' funds at the Children's Colony be bonded. In this connection it was noted that the hospital supervisor at the Children's Colony is now bonded in the amount of \$1,000.00.

Rent of Houses: It was noted that all staff houses are now rented to members of the staff, in accordance with a suggestion in the previous audit report.

School Lunch Program: It was noted that payments to the institution under the School Lunch Program are made by the State Department of Education directly to the steward of this institution by bank check. This matter was discussed with the State Treasurer and as a result henceforth all such checks will have typed on them - "For deposit only to the credit of the Monson State Hospital".

Nurses Training School Fund: The Nurses Training School Fund which was held by the treasurer of this institution was, by decree of the Hampden County Probate Court, turned over to the Board of Trustees and was directed to be used for the renovation of the recreation room in the Nurses Home and the purchase of supplies and equipment in connection therewith. In this connection the sum of \$1,266.91 was deposited with the institution treasurer to be held in a trust fund known as "The Nurses Recreation Room Fund".

Payment of Employees: The previous audit report stated:

"New employees at this institution have had to wait several weeks before receiving their wages. This delay has occurred in positions which require approval by the Civil Service Commission."

It was also suggested that the treasurer of the institution be authorized to use pay roll funds on hand to give employees salary advances pending approval.

It now appears that in accordance with Section 31B of Chapter 31 of the General Laws, as amended by Chapter 165 of the Acts of 1941, employees cannot be compensated in any manner for services rendered in any position in the classified Civil Service until they are specifically identified. Because of this statute new Civil Service employees are compelled to wait between six and eight weeks for their salary checks.

It is, therefore, recommended that necessary action be initiated to correct this situation.

Repairs and Renewals: The 1947 appropriation for this institution provided within the Repairs and Renewals Section \$4,012.00 for the purchase of a Laundry Tumbler. This item was duly received and paid for by the institution in March of 1948 in the amount of \$3,931.76. As of the date of audit this machine had not yet been installed and was located in the laundry section. In the opinion of the superintendent this equipment is necessary for current laundry purposes but had not been installed for the following reasons:

- a) Because of an insufficient number of maintenance employees
- b) Steam line adjustments were necessary
- c) It was proposed to build a new laundry building

It is recommended that this machine be immediately installed or that it be declared surplus so that the State Purchasing Agent may dispose of it to another State institution which may possibly be in immediate need of it.

Trust Fund Cash: It was noted that considerable cash belonging to the Trust Funds, Christmas Fund and Recreation Fund, is kept on hand in the office of the institution treasurer. It is suggested that all currency beyond working requirements be deposited in individual bank accounts.

STATE AIRPORT MANAGEMENT BOARD

REPORT NO. 53-64

Income: Attention is directed to the fact that cash receipts from airline operators using the airport facilities and from other commercial rentals totaled \$787,830.72 for the 1952 fiscal year and represents an increase of approximately \$140,000.00 over the previous year. The comparative receipts for the past four fiscal years were as follows:

| | |
|------|--------------|
| 1949 | \$382,772 91 |
| 1950 | 445,838 61 |
| 1951 | 648,378 53 |
| 1952 | 787,830 72 |

It should also be mentioned that the total earned income during the 1952 fiscal year was \$827,571.97 - the difference between this figure and the cash receipts indicated was reflected in a corresponding increase in accounts receivable balances.

Logan Airport - Employees' Bond Fund: It was noted that no general ledger control account had been established to the date of audit to record the amounts held for employees for the purchase of Savings Bonds. On that date the Employees' Bond Fund Account in the National Shawmut Bank of Boston indicated a balance of \$29.25.

This matter was discussed with proper personnel and during the course of this audit, the necessary control accounts were set up in the general ledger in accordance with specific instructions appearing in the Comptroller's Bureau Accounting Manual.

Logan Airport - Accounts Receivable: It was noted that three old accounts, one of which amounted to \$4,579.50, were charged off as uncollectible during the period under audit. It was noted that authorization from the Attorney General in this regard was received.

Logan Airport - Lease of Temporary Terminal Building: The previous audit report commented on the fact that a tenant who leased the Temporary Terminal Building owed \$13,166.67 for rent plus \$1,132.32 for certain fees for which the tenant, under his lease, disclaimed liability.

On the date of the current audit this same tenant was \$1,500.00 in arrears for rent for the month of December 1952. This particular lease expired and he now is a tenant at will. It is understood that a new lease is presently being negotiated.

It was further noted that the charges for fees amounting to \$1,132.32 were canceled by a vote of the Board on August 15, 1952.

Proposed New Hangar - American Airlines: Chapter 733, Acts of 1951 authorizes the construction of a new hangar, "provided, however, that before any money provided for by this act is expended for any purpose whatsoever said commissioner shall secure a binding lease for a term of not more than twenty-five years, with the approval of the governor and council, with a responsible air transportation company providing, in addition to all other airport charges, an annual hangar rental thereunder sufficient to amortize the cost of such hangar including the interest provided for in section two of this act, within the term of such lease".

To meet the expenditures necessary for the construction of the hangar, section two of the act authorizes the issuance of bonds by the State Treasurer, upon the request of the Governor and Council, to an amount not exceeding \$2,500,000.00. The bonds shall bear interest semi-annually, at such rate as the State Treasurer, with the approval of the Governor, shall fix.

It was noted that on June 16, 1952 a lease between the Commonwealth of Massachusetts and American Airlines, Inc. was signed. The term of this lease is twenty-five years and its provisions stipulate that American Airlines shall pay as rent, in equal quarterly installments, in advance, an annual amount equal to the sum of the following items:

- (1) One twenty-fifth of the cost of construction of the hangar, apron areas, utilities and other costs, said costs are not to exceed \$2,500,000.00;
- (2) Interest for one year on the unamortized balance of the cost of construction at a rate equal to the interest rate borne by the obligations issued by the Commonwealth to finance the construction;
- (3) Six cents per square foot per annum for the entire ground area, constituting the demised premises, including the ground area on which the hangar is situated. (This item will amount to approximately \$30,000.00 to \$35,000.00 per year).

Although actual construction has not started, an architect has been engaged and construction will probably begin during 1953.

Pumping Station: It was noted that the new pumping station was practically completed on the date of audit. It is understood that this building will be turned over to this Board in the near future.

Air Conditioning System: It was noted that an air conditioning unit, located in the Heating and Power Station, has never been used. Pipes connecting the unit to the Apron Building are in place, but the system in the Apron Building is incomplete.

Services - Non-Employees: Under the provisions of Chapter 637, Acts of 1948, the Commissioner of Airport Management shall employ, subject to appropriation, legal counsel and assistants to maintain books of account establishing detailed cost systems of airport operations and to conduct negotiations for leases and rentals for use and occupancy of property and buildings on state-owned airports, and clerical personnel. He may, subject to appropriation, incur such other expenses as may be necessary to enable him to exercise and perform the powers and duties conferred or imposed upon him by Chapters six and ninety, including the expense of publicizing and advertising all state-owned airports.

In this connection it was learned that two consultants were employed by the Board who were being paid from bond funds and it is questionable whether or not these payments are properly chargeable against these issues. It is suggested that under the circumstances these expenditures from bond funds be replaced by a transfer from maintenance funds.

Bond Fund Expenditures: Attention is called to the fact that the difference between the purchase price of a new automobile and the trade-in allowance of an old car was also paid from bond funds. On inquiry, it was stated that this car is used primarily in connection with the development of the airport.

Logan Airport - Restaurant Concession: At a meeting of the Board held on April 28, 1952, an abatement of \$2,000.00 per month was voted for a certain restaurant concessionaire. This abatement was to be effective for twelve months beginning April 1, 1952, and created a new minimum basic fee of \$35,497.44 for the twelve months' period. The reason indicated for this action was that space had been leased to another concessionaire in the same business and that the original concessionaire had consequently suffered a substantial loss in receipts.

Logan Airport - Materials and Supplies Inventory: A complete inventory of materials and supplies on hand was taken on December 16, 1952 and compared with the control balances in the Stock Ledger, with the following results:

| | Number of Items | Value |
|---|--------------------|--------------------|
| Inventory per Stock Ledger (Includes Accounts Payable) | 368 | \$29,432 49 |
| Add: | | |
| Overages per Physical Count | 40 | 611 25 |
| | | <u>\$30,043 74</u> |

| | | |
|------------------------------|----|--------------------|
| Less: | | |
| Shortages per Physical Count | 23 | \$ 954 21 |
| Physical Inventory | | <u>\$29,089 53</u> |

In addition to the regular inventory items controlled by the foregoing Stock Ledger accounts, there is also stored in the stock room many items which have been charged to maintenance expenses or construction costs. Because many of these items, particularly those charged to construction costs are expensive, it is suggested that some control should be provided for them.

In this connection, the following excerpt from the Comptroller's Accounting Manual is quoted:

"If it is desired, spending agencies may keep a separate stock ledger form as a reference and record book for items which are not entered in the materials and supplies ledger, but are charged directly to expenses. The accounts in this book, if kept, should be arranged in the same order as they are grouped in the monthly financial report."

Logan Airport - Vending Machines: Previous audit reports have stated that three companies operating vending machines did not have written leases. In this connection, it was noted that leases have been negotiated with two of these companies while the third company withdrew his vending machines after having paid the usual commissions for the period the machines were in operation.

Hanscom Field - Materials and Supplies: A test check of the inventory items indicated many items as being on hand which are inactive and not necessary. It is recommended that a survey be made to determine whether or not these items can be used by some other agency of the Commonwealth.

Hanscom Airport - Release of Certain Airport Land and Buildings to United States Air Force: It was noted that an agreement was negotiated on February 25, 1952 leasing a certain part, and also transferring by deed another part of that airport to the United States Air Force. This agreement was submitted to the Attorney General for approval. Another agreement providing that the United States Air Force agrees to relocate, move and construct facilities and utilities thereto in buildings all now occupied by the Commonwealth and its tenants without cost to the Commonwealth was also negotiated at that time. To the date of this audit, no action had yet been taken on the relocation of these Commonwealth facilities.

Logan Airport - Parking Lot Concession: Under date of October 1, 1950 an agreement was negotiated with a concessionaire covering the motor vehicle parking areas. Article III of this agreement entitled "Payments" states in part as follows:

"Section 1. Basic and Percentage Fee: The contractor shall pay fees to the Board at the following annual rate: An annual basic fee of Thirty Thousand Dollars (\$30,000.00), and an annual percentage fee of seventy per centum (70%) of the Contractor's gross receipts in excess of Forty-Six Thousand Dollars (\$46,000.00), but not over Sixty Thousand Dollars (\$60,000.00), and sixty-five per centum of the Contractor's gross receipts in excess of Sixty Thousand Dollars (\$60,000.00), arising during any annual period from the first day of October to the last day of September during the effective date of this agreement.

"The annual basic and percentage fee shall be paid in installments as follows: A basic fee of Seventy-Five Hundred Dollars (\$7,500.00) shall be prepaid on the first days of October, January, April and July of each year during the effective period of this agreement. A percentage fee of seventy per centum (70%) of the Contractor's gross receipts in excess of Forty-Six Thousand Dollars (\$46,000.00) accruing in any twelve (12) month period from the first day of October to the last day of September during the effective date of this agreement shall be paid on or before the tenth day of the month following the respective twelve (12) month period in which such gross receipts have arisen."

The previous audit report commented that the Board voted to activate this agreement on January 1, 1951 rather than October 1, 1950, and also stated that the Board was to receive 50% of the gross receipts of the concessionaire received prior to January 1, 1951.

On the date of the previous audit, there were total unpaid charges of \$35,569.95 of which \$20,569.95 represented the percentage fee due for the calendar year 1951. This latter amount was due on January 10, 1952 according to the terms of the agreement. The previous audit report also called attention to the fact that the agreement also required an annual statement of gross receipts prepared at the contractor's expense by a certified public accountant, should be submitted. It was noted that this statement which was due on January 10, 1952 according to the agreement, was not received until September 15, 1952.

The concessionaire requested financial relief and was granted a hearing in this connection by the State Airport Management Board. As a result, on June 2, 1952, the State Airport Management Board voted as follows:

"That, effective January 1, 1952 the payments due the Commonwealth in connection with the operation of the Auto Park at Logan Airport under Lease with the Auto Park, Inc. shall be \$30,000.00 guaranteed annually, the gross income over \$30,000.00 and up to and including \$65,000.00 shall be retained by Lessee; the gross income over \$65,000.00 and up to and including \$80,000.00 shall be divided equally between the Commonwealth and Lessee; of the amount over \$80,000.00 up to and including \$90,000.00. 60% will be payable to the Commonwealth and 40% retained by Lessee; and of any income exceeding \$90,000.00 70% shall be payable to the Commonwealth, and 30% retained by Lessee.

"Payments by Lessee under this arrangement shall be made in the amount of \$8,500.00 quarterly, in advance, the first of such payments due and payable on January 1, 1952, and the remaining quarterly payments due and payable on April 1, 1952, July 1, 1952 and October 1, 1952.

"Said \$8,500.00 quarterly payments are to represent the total of:

1. The \$7,500.00 quarterly basic payment.
2. \$750.00 quarterly towards balance due on operation of Lessee for year ending December 31, 1951.
3. \$250.00 quarterly in anticipation of further payments due for the twelve months' period under the percentage clauses referred to above.

"That this arrangement be effective for the twelve months' period beginning January 1, 1952 and ending December 31, 1952, and shall be subject to review by Board at that time."

Presuming \$75,000.00 to be the average gross receipts, this action of the Board will result in a decrease in revenue of \$14,550.00.

It is also noted that this revised agreement called for an amortization of the 1951 percentage charge at the rate of \$750.00 each three months. Under this arrangement, the final payment on the 1951 charge would be paid in 1958 while the current agreement expires in 1955. When a review of the terms were made at a meeting on December 3, 1952, the quarterly payments on the 1951 percentage charge were increased to \$1,600.00.

The current terms of the agreement which were voted at the December 3, 1952 meeting of the Board are as follows:

"That for the remainder of the period of the basic agreement, beginning January 1, 1953 and ending at twelve o'clock midnight September 30, 1955, the following rates shall apply:

- (a) First \$30,000 of gross receipt (but guaranteed \$30,000 minimum) to State.
- (b) Amount between \$30,000 and \$65,000 to be retained by operator.
- (c) Amount between \$65,000 and \$80,000, State to get 50%.

- (d) Amount between \$80,000 and \$90,000, State to get 60%.
- (e) Amount exceeding \$90,000, State to get 70%.

"Above rates are based upon each twelve months' period, beginning January 1, 1953.

"That past indebtedness shall be paid off at a quarterly rate in the amount of \$1600; and,

"That \$7500 quarterly be paid State on minimum basic guarantee; and,

"That the \$250 quarterly payment in advance now effective towards any overage shall be increased to \$1000. quarterly; and,

"That before this new agreement is effective, all payments due on 1952 volume shall be made in accordance with the present agreement."

It should be noted that the contractor was, on the date of this audit, current in his payments according to the new terms. The balance due was \$17,698.29, representing the unpaid portion of the 1951 percentage fee which is being paid off over the life of the contract, as stated above.

During the course of this audit, an examination of the books of this concessionaire was made by the Department of State Auditor.

DIVISION OF SAVINGS BANK LIFE INSURANCE

REPORT NO. 53-65

Premium Account: The balance of the Deposit Account of Future Bank Charges on date of audit was \$2.83. Since the depository has discontinued making bank service charges to this account, it was suggested that this account be closed and the balance which has been on the books since April 1, 1949 be returned to the Savings Bank Life Insurance Council.

This adjustment was effected while the current examination was in progress.

COMMISSIONER OF VETERANS' SERVICES

REPORT NO. 53-66

Spanish War Reimbursement Fund: On the date of audit the balance of cash in the principal account was \$418.50, and in the income account, \$1,152.20 or a total of \$1,570.70. A review of expenditures for the past 10 years indicates that in only one year did the expenses exceed \$300.00 which has been less than the income received each year from investments.

Reimbursement to Cities and Towns for Veterans' Benefits: On June 30, 1952 there was owing to cities and towns the amount of \$1,641,972.36 for the months of November 1951 through June 30, 1952. This latter amount was reimbursed from the 1953 fiscal year's appropriation in the months of July, August and November 1952.

Reimbursement to Cities and Towns for World War II Allowances: On June 30, 1952 there was \$29,518.34 owing to the various cities and towns for the six months ending June 30, 1952. This amount was reimbursed in July and November 1952 from the 1953 fiscal year funds.

DEPARTMENT OF CORRECTION

GENERAL DEPARTMENT

REPORT NO. 53-67

Prison Camps: At present there is one camp at the Myles Standish State Forest in Plymouth, which was officially opened on May 22, 1952, and where the total inmate population on the date of audit was 43. The general books are maintained by the senior bookkeeper in the office of the Department of Correction. All cash transactions are recorded in the department's State cash book, and one bank account is maintained for both the department and the division.

Parole Board - Assistance to Discharged Prisoners: The records of the Parole Board indicated that during the period of this audit \$408.75 was given to discharged prisoners as loans or gratuities. During the same period \$58.00 was repaid on loans.

Department of Correction - Bid Deposits: These are recorded in the department's State cash book when received, in a special column headed "Bid Deposits". They are also recorded in the general ledger column as income, when forfeited, creating an overstatement of the cash receipts and payments.

Department of Correction - Prison Camps: Under Section 162 of Chapter 467 of the Acts of 1951, the expenditure of funds for the welfare of certain prisoners upon their release was authorized. It was noted that \$135.00 was paid during the current audit period as gratuities to certain prisoners released from the Prison Camps at Plymouth.

OUTDOOR ADVERTISING AUTHORITY

REPORT NO. 53-69

Change of Address: This Authority, which was formerly located at 100 Nashua Street, Boston, moved its offices to 80 Boylston Street, Boston, in May 1951. A three year lease, effective May 1, 1951, was originally entered into at an annual rental of \$2,100.00. Since that date an additional room was rented at the same location on a tenant at will basis for six months from January 1, 1953 at a monthly rental of \$35.00.

Application Register: In this connection the previous audit report stated:

"An application register is maintained to record the receipt and disposition of each application for a permit. These are, however, frequently not listed in this folio as they are received. In order to insure better control, it is recommended that these applications be promptly entered in the application register."

It was noted that the foregoing suggestion was adopted.

Renewal Permits: It was noted that renewal permits are now being issued approximately six months after their effective date. As the inspection fees for these renewals are payable within ten days of the receipt of the renewal permits, it follows that a bill-board could be used for this interim period while the permit might be canceled prior to the payment of the required fee, with a resultant loss of income.

It is again suggested that steps be taken to insure prompt issuance of the renewal permits after their effective dates.

Renewal Inspection Fees: It was noted that accounts totaling \$10,130.00 were unpaid as of the date of audit. These unpaid fees represented application for renewal permits cleared in December, 1952, and are shown in the following summary:

| | |
|----------------|--------------------|
| 1,052 at \$ 25 | \$ 263 00 |
| 117 at 1 00 | 117 00 |
| 3,250 at 3 00 | 9,750 00 |
| Total | <u>\$10,130 00</u> |

While this audit was in progress, fees were collected for the foregoing inspections as follows:

| | |
|----------------|--------------------|
| 1,052 at \$ 25 | \$ 263 00 |
| 117 at 1 00 | 117 00 |
| 3,236 at 3 00 | 9,708 00 |
| Receipts | <u>\$10,088 00</u> |

There were also 14 cancellations of the \$3.00 fees or a total of \$42.00.

Overpayments by Advertisers: An overpayment of \$51.00, which was made by one company on applications for renewal permits, was applied against an amount due from that company for renewal inspection fees. A second overpayment of \$22.00, which was not applied against renewal inspection fees due, should be refunded in the manner prescribed by the Comptroller's Bureau.

Compensation of Board Members: It was noted that each board member of this Authority received the statutory maximum compensation for attendance at board meetings during the fiscal year ended June 30, 1952. The chairman received \$2,500.00 and

the two members received \$1,500.00 each, for 100 meetings attended by them.

Income Cash on Hand: It was noted that \$7.00 was being held in the Authority's office awaiting identification and included two amounts of \$6.00 and \$1.00 respectively. It is suggested that these two items be entered in the cash book of the department, and when the amounts are identified adjustments may be accordingly entered.

Control of Active Billboards, Signs, and Other Advertising Devices: It is suggested that all permits of prior years should be accounted for by comparison in the following year by renewal applications and/or cancellations. The present system of handling renewal applications and renewal permits does not provide complete control of active billboards, signs, and other advertising devices. It is believed that the incorporation of an alphabetical card file for purposes of cross reference with the present numerical card file would prove beneficial in this control.

BOSTON PSYCHOPATHIC HOSPITAL

REPORT NO. 53-70

Sale of Meal Tickets: The cash book indicated that \$7,197.00 was received from the sale of meal tickets to employees for this audit period. It was further noted that the treasurer issued during this period meal tickets having a face value of \$6,000.00 to the nursing office for free distribution to student nurses.

The previous audit report stated in this connection, as follows:

"It is also suggested that the practice of issuing the same type of tickets to both paying employees and non-paying employees is not in accordance with sound bookkeeping practice as it complicates the accounting of income. It is therefore recommended that meal tickets intended for free distribution should be identified in some distinctive manner."

It was noted that tickets now issued free to student nurses have the word "Volunteer" stamped across their face.

Southard Clinic Fees: It was noted that fees totaling \$7,717.50 were received from the Southard Clinic during this audit period. These fees range from \$.50 to \$10.00 and are established by a social worker after an interview with the patient on the occasion of the initial visit. The amount of fee to be paid thereafter is recorded upon an appointment card. The patient pays the fee indicated on the card to the clinic secretary but still does not, however, receive a serially numbered receipt, and the secretary simply initials this card and later records the fee purportedly received in the Clinic cash book.

The previous audit report called attention to the fact that this arrangement does not provide adequate internal control. This matter was discussed with officials within the Department of Mental Health and as a result a new system is now being installed.

Board of Patients: As of the date of audit there were 126 patients in this institution of which 110 were not paying any board, and the remaining 16 were paying at rates which varied from \$5.00 to \$50.00 per week.

These latter 16 patients were admitted to the hospital prior to December 21, 1952 and are, therefore, still being billed directly by this institution.

Accounts Receivable: An analysis of the Accounts Receivable control account indicated that 2 accounts with balances totaling \$146.57 were charged off the books as uncollectible during the current audit period.

It was also noted that as of September 15, 1952, 262 accounts with balances totaling \$15,458.71 were transferred to the Department of Mental Health, and were closed on this institution's books.

Special Gift Fund: It was noted that donations totaling \$13,087.90 were received by the Special Gift Fund during the audit period. The individual amounts involved ranged from \$1.50 to \$5,000.00. It was further noted that the treasurer now uses a Duplicate Receipt Book (Form CB 23) to acknowledge all receipts of monies on account of this fund.

Nursing Research Fund: On July 11, 1951 this institution received a grant of \$12,860.00 from the American Nurses' Association for a study to investigate the effect of specified factors on mentally ill patients. On October 8, 1952, an additional

\$13,489.20 was received for the same purposes. In consideration of these grants the institution agreed to furnish or make available to this organization the materials and findings resulting therefrom. It is further understood that the Association is not committed to continue its financial support in subsequent years. The expenditures during the period under audit were \$7,671.19, and the total of expenditures over the life of this fund was \$13,657.64.

Geschickter Fund: On August 13, 1952, this institution received the first of four quarterly grants of \$10,010.00 each from the Geschickter Fund for Medical Research, Inc., and on November 21, 1952 received a second grant of \$10,010.00. This fund is for investigative research in the problems of the mentally ill. To the date of audit the expenditures from this fund totaled \$5,740.01.

Psychiatric Aide Fund: At a meeting of the Board of Trustees of the Russell Sage Foundation on November 15, 1951, it was apparently voted to give this institution a two year grant totaling \$47,600.00 for a proposed study of Ward Patient Care in Psychiatric Hospitals. This grant is payable to the institution in eight quarterly installments. It was also agreed that a report of the results of this study will be prepared for publication by the Foundation. It has also been agreed that the institution will deposit with the Foundation by June 30, 1954 manuscripts reporting upon the above study. Any funds remaining after the completion of the project will revert to the Foundation. To the date of audit the first five installments totaling \$29,750.00 had been received with expenditures totaling \$18,747.74.

ATTORNEY GENERAL

REPORT NO. 53-71

Accounts Referred for Collection: The previous audit report stated as follows:

"The only matters referred to this office by the Department of Corporations and Taxation are corporations who have failed to file certificates of condition. If the Attorney General has been put to any expense, namely, the cost of serving papers by a deputy sheriff, such costs are charged directly when the return is filed. The chief clerk does not accept the \$10.00 fee for filing the annual certificate of condition, but makes certain that it is paid to the Secretary of State.

"There appears to be no practical way that the Auditor can check the penalties and costs assessed by the Attorney General in connection with the filing of the certificates of condition."

The foregoing practice no longer prevails. Upon notification by the Department of Corporations and Taxation as to those corporations who have failed to file certificates of condition, a demand letter is sent out by the Attorney General to such corporations for payment of the required fee. Papers are no longer served by a deputy sheriff. If payment is not made after demand, then the Commissioner of Corporations and Taxation may petition for dissolution of the corporation.

Prior audit reports have also commented upon the difficulty of making an audit under the present system of keeping records by the so-called card docket file. It has been suggested that this file, which is now alphabetically maintained by names of persons, should be supplemented by a file arranged by State Departments and Institutions. Since such an arrangement has not been put into operation, it is again recommended that this be done and that under each State subdivision there should be a record of each individual or concern owing money to a State agency. Periodic verification of these records should be made by correspondence with the departments and institutions.

Appropriation Deficiency: It was noted that there was a deficiency in the amount of \$693.65 which was not covered by the 1952 appropriation for Veterans' Legal Assistance. This deficiency developed from the following:

| | |
|---|------------|
| 50M Copies - "Form 3 - Report of Attorney General - Veterans' Division" | \$4,090 00 |
| 12 Additional Pages @ \$79.00 Page | 948 00 |
| Author's Alterations | 63 50 |

| | |
|---|-------------------|
| 175 Extra Copies @ 10¢ each | \$ 17 50 |
| | <u>\$5,119 00</u> |
| Amount Paid on Schedule #43, Voucher #141 | |
| Less Discount | 4,425 35 |
| Amount of Deficiency | <u>\$693 65</u> |

Bonds: The position of chief clerk is bonded for \$1,000.00. However, the "Director of the Division of Collections" who handles all collections in the first instance is not bonded. It is therefore recommended that he too be bonded.

TEACHERS' RETIREMENT BOARD

REPORT NO. 53-72

Confirmations of Payments by Cities and Towns: A total of 357 verification notices were mailed to the treasurers of various Cities and Towns in the Commonwealth for the purpose of confirming payments to the Board during the 1952 calendar year. Of these only 316 were returned.

Reimbursements to Cities and Towns: Payments from the fiscal year 1953 appropriation totaled \$1,504,000.00, and included reimbursements due through June 30, 1951 with the exception of \$236,508.59 due the City of Boston as of that date. In this connection it was noted that the City of Boston is one year in arrears in submitting its authorized records for checking and reimbursement. While the Board of Retirement has no control over this situation it is mentioned simply because there is a substantial liability of the Commonwealth to the City of Boston existing at the end of the fiscal year, which does not appear on the records of the State Comptroller.

Records - Microfilm: The bookkeeping records relating to the teachers' deposits for the 1952 calendar year were microfilmed by order of the Board while the audit was in progress.

Bookkeeping: It was again noted that a suggestion in a previous audit report to the effect that a general ledger be maintained, was not approved by the Comptroller's Bureau.

TREASURER AND RECEIVER-GENERAL

GENERAL DEPARTMENT

REPORT NO. 53-73

Transfer of Cash and Securities: A special audit of cash and securities was made on July 7, 1952 when the retiring Treasurer and Receiver-General of the Commonwealth, the Honorable John E. Hurley was succeeded by the Honorable Foster Furcolo. As of that date a receipt statement of cash and securities on hand was prepared. Copies of this receipt, properly signed, were submitted to both the incoming and outgoing treasurers. On that date the cash balance totaled \$43,517,925.92 and the securities on hand were \$407,791,816.53.

Salary Advances: On February 2, 1953 the amount of outstanding salary advances was \$33,503.87. As of March 31, 1953, this amount had been reduced to \$151.03 and comprised the following:

| | |
|-------------------------------------|-----------------|
| Excessive Advances - September 1952 | \$136 62 |
| through January 1953 | <u>14 41</u> |
| Overpayments - Service Terminated | <u>\$151 03</u> |

Bank Reconciliations: On the date of this audit, the departmental reconciliations of its bank accounts were practically current. This was a substantial improvement over conditions which existed at the time of recent past examinations. It was, however, noted that these reconciliations included certain adjustments, etc., which were incomplete as to explanation and which date back in many instances to 1950. Many of these adjustments involve deposits or charges which appeared on bank statements and have not yet apparently been entered on the departmental books of account. The complete detail of these items should be obtained from the banks concerned and if found correct should be

properly entered.

Interest on Funds in Reserve Banks: Inactive revenue funds are now on deposit in more than one hundred Massachusetts banks and have been earning interest at the rate of 1% since early in 1951. As of March 12, 1953 two of these banks had not remitted interest earned in the total amount of \$900.00. The banks were advised of this fact and the interest in arrears was received on March 19, 1953. In this connection it was noted that income from this source totaled \$66,034.14 for the entire audit period.

Certain Checks on Hand: A previous audit report included a comment relative to certain checks payable to a retired employee of the Metropolitan District Commission which were on hand because the employee refused to accept them. These checks included salary items from October 1, 1943 to March 31, 1946. It was also noted that this individual has not cashed any of his retirement checks from April 1946 to date. In this connection the records indicate that a total of 115 checks have been issued to him during the period indicated. These checks, with the exception of 24, were found on file in the office of the State Treasurer. Of these checks only 93 have been passed through the "Unpaid Check Fund" and the remainder were traced to bank reconciliation where they still appear in the "outstanding" category.

The total amount of unpaid salary checks to February 2, 1953 and pension checks to February 2, 1953 total \$12,395.14. It was also noted that efforts are continually being made to have this individual accept the amounts apparently due him.

Coupon Bond Interest Paid: It was noted in connection with this examination that paid bond coupons had been sorted only to December 31, 1952 and that postings to the coupon register had also been completed to that date. These records were verified from July 1, 1951 to December 31, 1952. The outstanding coupons due and unpaid as of the latter date totaled \$39,560.00, and as of June 30, 1952, they totaled \$43,206.00.

Bonus Division - Uncashed Bonus Checks: A listing of the unpaid bonus checks in the State Treasurer's vault on February 2, 1953 which had been returned by postal authorities because of poor addresses, etc., amounted to \$10,900.00 as follows:

| | |
|--|--------------------|
| Per List December 10, 1951 | \$10,550 00 |
| Add: | |
| Checks Returned in Current Period | 1,150 00 |
| | <u>\$11,700 00</u> |
| Deduct: | |
| Checks remailed to proper addresses in current period | \$ 800 00 |
| Per List February 2, 1953 | <u>10,900 00</u> |
| | <u>\$11,700 00</u> |

The larger part of these checks is more than six years old and only \$1,150.00 of it is less than one year old. It is again suggested that these checks written more than one year ago be transferred to the Unpaid Check Fund.

Bonus Division - Overpayments: The records indicate that there was due as of the date of audit, on account of bonus overpayments \$5,796.00, established as follows:

| | |
|--|--------------------|
| Balance December 10, 1951 | \$5,837 00 |
| Add: | |
| New Overpayments (1946 - 1948) | 600 00 |
| | <u>\$6,437 00</u> |
| Deduct: | |
| Cash Collections | \$541 00 |
| Cancellation Account of Error in Making Original Charge | 100 00 641 00 |
| Balance February 2, 1953 | <u>\$5,796 00</u> |

With the exception of only \$149.00 these items are in the hands of the Attorney General for collection or disposition.

Cash and Securities: The cash balance according to the books and records of the Treasurer and Receiver-General as of the close of business on February 2, 1953 was \$32,404,370.53 and the book value of the securities amounted to \$339,598,795.34. This latter amount included \$182,128,689.34 in the Unemployment Compensation Fund in the custody of the Federal Government in Washington.

Veterans' Housing - Issue of Bonds under Permanent Financing: As of June 30, 1952, 83 projects had entered Permanent Financing with bond issues totaling \$72,026,000.00. The amount included 7 different issues made on a serial basis and maturing over a period of forty years. These issues are as follows:

| <u>Date of Issue</u> | <u>Amount</u> | <u>Rate of Interest</u> | <u>Maturities</u> |
|----------------------|------------------------|-------------------------|-------------------|
| Oct. 1, 1950 | \$10,109,000 00 | 1 3/4% | Oct. 1, 1951/90 |
| Jan. 1, 1951 | 13,556,000 00 | 1 3/4% | Jan. 1, 1952/91 |
| Apr. 1, 1951 | 9,251,000 00 | 1 7/8% | Apr. 1, 1952/91 |
| July 1, 1951 | 7,789,000 00 | 2 1/8% | July 1, 1952/91 |
| Oct. 1, 1951 | 13,264,000 00 | 2 % | Oct. 1, 1952/91 |
| Jan. 1, 1952 | 10,357,000 00 | 2 1/4% | Jan. 1, 1953/91 |
| Apr. 1, 1952 | 7,700,000 00 | 2 1/8% | Apr. 1, 1953/91 |
| | <u>\$72,026,000 00</u> | | |

On July 1, 1952 another issue amounting to \$10,722,000.00 was made. These bonds bear interest at the rate of 2 1/4%. It was further noted that on December 5, 1952 a bond offering at the rate of 2 1/2% was made and was apparently too low to attract investors as no bids were actually received.

Although the bonds which have been issued are in the names of the various housing authorities, they are, nevertheless, guaranteed as to payments of interest and principal by the Commonwealth and are therefore a contingent liability of the Commonwealth.

Borrowings up to \$225,000,000.00 may be made by local housing authorities under Chapter 200 of the Acts of 1948 as amended by Chapter 550 of the Acts of 1952. As of January 31, 1953 these bond issues totaled \$112,063,000.00. The notes issued amounted to \$68,662,000.00 representing a total contingent liability of \$180,725,000.00. This amount does not appear in any of the debt statements appended to this audit report.

Recent Issues of Massachusetts Bonds in Coupon Form: Inasmuch as all recent issues of bonds have been in coupon form it is estimated that more than 500,000 coupons have been recorded and accounted for by the State Treasurer's office.

Redeemed Bonds: In connection with this examination several instances were noted where bonds redeemed by the Commonwealth had not been properly canceled by complete perforation. This function should be more carefully exercised in the future.

DEPARTMENT OF PUBLIC WORKS

GENERAL DEPARTMENT

REPORT NO. 53-74

Highways Division

Inventories: An integral part of the accounting installation several years ago by the Public Administration Service was a tabulating machine inventory control. Inventories are maintained in the 40 storehouses located throughout the Commonwealth and the system is designed so as to provide a control in the bookkeeping machine room for the materials and supplies in each of them.

Test inventories were taken in connection with this examination at the following storeroom:

- Storeroom No. 1 - D Street, South Boston
- Storeroom No. 2 - Traffic Shop, Roxbury
- Storeroom No. 35 - Millbury
- Storeroom No. 32 - West Rutland, Athol
- Sterling, Westminster

Summaries of the results of these test inventories follow:

Test of Stores Inventories

| | <u>"D" St.</u> <u>March 18, 1953</u> | <u>Egleston Square</u> <u>March 31, 1953</u> | <u>West Rutland</u> <u>May 25, 1953</u> | <u>Millbury</u> <u>April 14, 1953</u> |
|--|---|---|--|--|
| Value per Book Records | <u>\$30,078 20</u> | <u>\$36,949 43</u> | <u>\$839 61</u> | <u>\$4,129 32</u> |
| Value per Physical Inventory | \$29,732 66 | \$36,983 96 | \$4,650 34 | \$4,125 91 |
| Add: | | | | |
| Shortages | <u>744 76</u> | <u>501 17</u> | <u>31 67</u> | <u>78 94</u> |
| | \$30,477 42 | \$37,485 13 | \$4,662 01 | \$4,204 85 |
| Less: | | | | |
| Overages | <u>399 22</u> | <u>535 70</u> | <u>3,842 40</u> | <u>75 53</u> |
| Value per Book Records | <u>\$30,078 20</u> | <u>\$36,949 43</u> | <u>\$839 61</u> | <u>\$4,129 32</u> |
| Date of Inventory | March 18, 1953 | March 31, 1953 | May 25, 1953 | April 14, 1953 |
| Date of Book Records Received | April 16, 1953 | April 16, 1953 | May 26, 1953 | May 8, 1953 |
| Number of Items Inventoried | 208 | 147 | 13 | 96 |
| Number of Items Short | 52 | 45 | 1 | 14 |
| Number of Items Over | 18 | 37 | 12 | 13 |
| Total Number of Items in the Storeroom | 4,724 | 1,499 | 29 | 530 |
| Total Value | \$324,969 90 | \$377,044 24 | \$2,899 61 | \$36,482 90 |

Attention is called to the overage in Rutland totaling \$3,842.40. It appears that most of this is due to items returned to the storage area from construction and other projects but when returned were not brought back on the stock records. It is suggested that in order to provide a control over such material that when returned the proper credit slips be issued and the necessary entries be made in the stock records.

Attention is called to the fact that the Department records as of January 31, 1953 indicated a total value of \$1,999,948.17 for the 13,386 items carried in the inventories of all the storerooms maintained by this Department in the 40 localities.

In connection with inventory controls, the past few audit reports have stated:

"Previous audit reports have commented on the fact that no control account is carried in the general ledger for materials and supplies. It is suggested in view of the fact that the book records in the machinery room are so designed as to provide a separate control for the materials and supplies in each of the 42 storehouses, that as of July 1, 1950, separate control accounts be set up in the general ledger for three or four of the storehouses and gradually increase the number of control accounts until all 42 have been provided."

It was again noted that controls have not been installed in the general ledger, therefore, attention is again called to the foregoing recommendation.

Accounts Receivable: The active accounts receivable balance on February 2, 1953 totaled \$1,804,959.54 of which \$1,782,793.46 was due from the Federal Government. This account also included accounts aggregating \$622.23 which represent alternative charges in cases where reimbursement is sought for damages to highways, bridges and guard rails. When either party pays the amount billed, the alternative charge is canceled.

The suspense accounts receivable balance on the same date totaled \$68,188.08 and supposedly represents those accounts turned over to the Attorney General's department for collection, etc. Included in this amount is the sum of \$6,044.73 representing alternative charges.

The suspense accounts receivable were checked with the records of the Attorney General's department and it was noted that 16 of the accounts could not be located in that agency. A list of these accounts was given the Department of Public Works who resubmitted them to the Attorney General under date of March 5, 1953. The suspense accounts include many old items, one in particular an amount of \$3,077.93 due from the Outdoor Advertising Authority and it would seem that some disposition could be made of this.

It was also noted that credit balances totaling \$293.19 are included with the active accounts receivable as of the date of audit. The balances generally represent part payments of accounts which are listed with the suspense accounts receivable.

It is suggested that the accounts be properly credited.

Attention is directed to the fact that the previous audit report stated:

"The unpaid accounts receivable of April 28, 1952 include \$6,000.00 which was credited by an agreement relative to the conversion of Portable Power Plants to alternating current at a cost of \$700.00 each, together with the simultaneous sale of 30 searchlights to the same company for \$200.00 each, making the net unit cost of \$500.00. The settlement of this account has not been effected, despite the fact that the Department records indicate that the 30 searchlights were turned over."

It was noted that this was paid July 18, 1952.

Classified Pay Roll: The classified pay roll for the twelve months ending January 31, 1952 totaled \$12,084,313.05 and included overtime payments amounting to \$1,218,702.01.

A tabulation of that pay roll for the week ending January 30, 1953, received from the bookkeeping machine room of this Department, indicated a total of 2,403 employees of which 1,425 were of a permanent status, 939 temporary, and 39 emergency.

Advances to Employees: Verification notices were mailed to those individuals who appeared in the records as having balances of advance money for travel and other expenses. In this connection, no replies were received from 33 persons with a total of

\$3,384.04 outstanding as of the date of audit.

It was also noted that two individuals who were not in the employ of this Department on that date still owed advance money in amounts totaling \$20.46.

On June 30, 1952 there was a total of \$2,023.51 of outstanding advance money of which \$797.94 represented weekly vacation pay roll advances and \$1,225.57 represented unpaid travel advances. These amounts were finally cleared, with the exception of the \$20.46 previously mentioned, although many of them were not returned until a long period subsequent to the end of the fiscal year. It is suggested that some arrangement be made so that advance monies will be cleared at the end of the fiscal year.

Land Damage Cases and Allotments: The following statement represents a comparative summary of the transactions and allotments in this direction for the four years ended June 30, 1952, as shown by the records in the Right of Way Section of this Department:

| <u>Fiscal Year Ended</u> | <u>Number of Projects</u> | <u>Cities or Towns</u> | <u>Number of Land Damage Cases</u> | <u>Allotments</u> |
|------------------------------|-------------------------------|----------------------------|--|-------------------|
| June 30, 1949 | 33 | 27 | 258 | \$ 2,643,785 00 |
| June 30, 1950 | 79 | 58 | 1,015 | 8,827,070 00 |
| June 30, 1951 | 70 | 60 | 1,249 | 14,952,210 00 |
| June 30, 1952 | 65 | 64 | 887 | 5,293,509 00 |

The following statement represents the amounts, etc., of land damage cases settled during the three years ended June 30, 1952, as shown by the records in the Right of Way Section of this Department:

| <u>Fiscal Year Ended</u> | <u>Number of Cases Settled</u> | <u>Amount Settled</u> | <u>Right of Way Appraisal Total</u> |
|------------------------------|------------------------------------|---------------------------|---|
| June 30, 1950 | 783 | \$2,814,451 93 | \$2,903,807 50 |
| June 30, 1951 | 817 | 3,061,668 13 | 2,790,412 10 |
| June 30, 1952 | 607 | 3,630,951 41 | 3,153,992 00 (approx.) |

Land Takings: When the Department of Public Works decides to take land by Right of Eminent Domain a so-called "layout" is prepared which indicates those parcels of land which are to be taken, together with the respective owners. Subsequently a representative of the Department of Public Works negotiates with the owners of the property relative to making a settlement. When an agreement is reached, an Offer in Settlement is signed by the owner. The offer is thereupon transferred to a real estate conveyancer who is under contract to the Department for purposes of title examination, etc. At least two members of the Board of Commissioners must also approve the transaction before it is submitted to the Office of the Attorney General for approval. In the event that no agreement appears possible, all data relative to the case is immediately submitted to the Attorney General for whatever legal action is warranted.

Real Estate Review Board: This board was authorized by Statute 1952, Chapter 556, Section 6, Paragraph 2, which paragraph reads as follows:

"There is hereby created within the department of public works a real estate review board consisting of five members, to be appointed by the commissioner from members of the Boston Real Estate Board, from resident Massachusetts members of the American Institute of Real Estate Appraisers, from members of the Massachusetts Board of Real Estate Appraisers or from members of the Massachusetts Real Estate Association. All vacancies in said board shall be filled by said commissioner from a list of five names submitted by the Boston Real Estate Board and five names submitted by the Massachusetts Real Estate Association. Said department shall fix the compensation of the members of said real estate review board."

The minutes of the board meetings were reviewed and the minutes of November 4, 1952 states that the Commissioner appointed to this board the following five members:

Arthur P. Wilcox
 Roy E. Connor
 Alfred H. Dolben
 Carleton Hunneman
 H. Kingsley Durant

It was noted that four contracts have been made with the foregoing persons.

The first contract - No. 4923 - dated August 3, 1951 with said persons as joint venturers to examine and review appraisals of property, contract to be completed October 31, 1951. However, on October 2, 1951 by vote of the Commissioners it was extended to June 30, 1952. This contract provided for payment to each of the joint venturers of \$125.00 a day for each day worked and if only part of a day was worked payment was to be prorated. Under this contract a total of \$5,437.50 was paid to the joint venturers.

The second contract - No. 5138 - dated July 1, 1952 to be completed December 31, 1952 contained the same provisions and rate of payment as the first contract. Under this contract a total of \$8,437.50 was paid to the joint venturers.

Two contracts were also made covering the period from January 1, 1953 to June 30, 1953 containing the same provisions and rate of payment. One of these - No. 5298 - related to work in connection with General Laws, Chapter 79 and the other - No. 5299 - related to work authorized by Statute 1952, Chapter 566. To February 1, 1953 no payments had been made under these contracts.

First Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 306 of the Acts of 1949 which became effective May 18, 1949, provided for a bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was made available to the Department of Public Works and \$8,000,000.00 was made available to the Metropolitan District Commission.

The amount made available for this Department was allocated by said Chapter 306 as follows:

Section 5. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 6. \$53,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in the urban areas and for studies to determine the feasibility of revenue producing facilities. Not less than \$5,000,000.00 of the total sum is to be expended in each of the four following districts:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County
- Area 3. Middlesex, Essex, and Norfolk County, including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Section 7. \$2,000,000.00 to be expended for traffic safety devices on State highways and on roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 12. This section provides that detailed progress reports shall be filed with the Governor and with the clerk of the House of Representatives on December 31, 1949, June 30, 1950 and December 31, 1950, and a final report on or before July 31, 1951 relative to all projects undertaken under the provisions of this act.

Section 13. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1951.

In this connection it was noted that to the date of this audit, \$100,000,000.00 of the bonds authorized under this statute had been issued.

The following is a summary of expenditures and encumbrances incurred under this act to October 31, 1952:

| | Expenditures to Oct. 31, 1952 | Encumbrances Outstanding Oct. 31, 1952 | Total to Oct. 31, 1952 |
|---------------------------|-------------------------------------|--|------------------------------|
| Metropolitan Area | \$16,813,028 80 | \$19,365,024 03 | \$36,178,052 83 |
| Outside Metropolitan Area | 49,236,343 90 | 3,612,085 36 | 52,848,429 26 |
| Traffic Safety | 1,973,274 41 | 9,326 61 | 1,982,601 02 |
| | <u>\$68,022,647 11</u> | <u>\$22,986,436 00</u> | <u>\$91,009,083 11</u> |

Second Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 685 of the Acts of 1950 which became effective July 31, 1950 provided for a second bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was again available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The amount made available to the Department of Public Works was allocated by the aforementioned statute as follows:

Section 4. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 5. \$54,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in urban areas. Not less than \$8,000,000.00 of the total sum is to be expended in each of the four following areas:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County
- Area 3. Essex, Middlesex and Norfolk Counties, Including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Also from the total amount, the Department of Public Works may expend from the total amount of \$54,000,000.00 an amount not to exceed \$1,000,000.00 in areas outside Metropolitan Boston for resurfacing existing highways.

Section 6. \$1,000,000.00 to be expended for traffic safety devices on State highways and roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 11. This section provides that detailed progress reports shall be filed with the Governor and the Clerk of the House of Representatives on December 31, 1950, June 30, 1951 and December 31, 1951, and a final report on or before July 31, 1952 relative to all projects undertaken under the provisions of this act.

Section 12. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1952.

The following is a summary of the expenditures and encumbrances incurred under this law to October 31, 1952:

| | Expenditures to Oct. 31, 1952 | Encumbrances Outstanding Oct. 31, 1952 | Total |
|--|-------------------------------------|--|------------------------|
| Outside Metropolitan Area | \$32,834,742 54 | \$18,262,583 57 | \$51,097,326 11 |
| Outside Metropolitan Area - Resurfacing | 885,434 50 | 4,006 23 | 889,440 73 |
| | <u>\$33,720,177 04</u> | <u>\$18,266,589 80</u> | <u>\$51,986,766 84</u> |
| Metropolitan Area | 2,866,485 39 | 29,271,388 22 | 32,137,873 61 |
| Traffic Safety | 833,546 33 | 11,623 42 | 845,169 75 |
| | <u>\$37,420,208 76</u> | <u>\$47,549,601 44</u> | <u>\$84,969,810 20</u> |

Third Bond Issue for an Accelerated Highway Program: Chapter 556 of the Acts of 1952 effective so far as Sections 1 to 11 inclusive on July 2, 1952 and Sections 12, 13, 14, and 14A effective on January 1, 1953 provided for a bond issue of \$200,000,000.00. Of this amount \$184,000,000.00 was available for this Department and \$16,000,000.00 was available to the Metropolitan District Commission.

The amount made available to this Department was allocated by said Chapter 556 as follows:

Section 4. \$74,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area" as established and defined in Exhibit B of House Document No. 1767 of the year 1948.

Section 5. \$110,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 of the year 1948. Said Section 5 allocates the expenditures as follows:

- Area 1. West of the Connecticut River, not less than \$12,000,000.00
- Area 2. Between the Connecticut River and easterly boundary of Worcester County, not less than \$12,000,000.00
- Area 3. Essex, Middlesex and Norfolk Counties, including Route 128, not less than \$12,000,000.00
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties, not less than \$12,000,000.00

Section 10. This section provides that detailed progress reports shall be filed with the Governor and the Clerk of the House of Representatives on December 31, 1953, December 31, 1954, December 31, 1955 and a final report on or before December 31, 1956 relative to all projects undertaken under the provisions of this act.

Section 11. This section provides that all contracts for projects authorized by this act shall be entered into not later than December 31, 1956.

A summary of the expenditures and encumbrances made and incurred under this act to October 31, 1952 follows:

| | Expenditures to Oct. 31, 1952 | Encumbrances Outstanding Oct. 31, 1952 | Total |
|--|-------------------------------------|--|-----------------------|
| Metropolitan Area | \$ 66 38 | - | \$ 66 38 |
| Area 1 | 2,384 34 | - | 2,384 34 |
| Area 2 | 1,177 90 | - | 1,177 90 |
| Area 3 | 61,121 51 | \$2,953,952 20 | 3,015,073 71 |
| Area 4 | 10,932 99 | - | 10,932 99 |
| Undistributed Items, Stores Overhead, etc., not applicable to any one area | - | 17,188 25 | 17,188 25 |
| | <u>\$75,683 12</u> | <u>\$2,971,140 45</u> | <u>\$3,046,823 57</u> |

Sale of Land and Property: Previous audit reports have included comments relating to a parcel of land on Nashua Street, Boston, which was sold on May 20, 1941 for \$100,000.00. The terms of the agreement called for a down payment of \$6,500.00 and the balance to be paid in eleven equal payments of \$8,500.00 each with interest at 4%. The down payment of \$6,500.00 was accordingly received but no further payments of principal or interest have been received. A supplemental agreement was reached by both parties on November 16, 1943 which was approved by the Council on December 27, 1944. This later agreement stated in part:

" . . . That the further payments on the purchase price of said premises as required by the terms of said agreement of May 20, 1941 shall be suspended for the duration of the unlimited National Emergency as declared by the President of the United States on May 27, 1941 . . . "

At the Commission meeting which was held on April 20, 1948, this matter of the agreement was discussed, and it was voted to refer the entire matter to the Director of the Division of Waterways for study and a report.

A report on this matter was presented at a meeting of the Commission on November 23, 1948, in which it was stated in part as follows:

" . . . On May 20, 1941 the Department agreed to sell a part of the Nashua Street parking space to . . . for \$100,000.00; \$6,500.00 to be paid on delivery of the agreement and the balance in eleven equal annual

installments starting with May 1, 1942, plus interest at 4 per cent. He states that on November 16, 1943 there was a supplementary agreement which provided that further payments beyond the \$6,500.00 down payment were suspended for the 'duration of the National Emergency as declared by the President of the United States on May 27, 1941', and the 1941 agreement was suspended until that date, but provided 'that if it appears to the Department that the necessary materials for the construction of the building are available said department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect'."

It was thereupon voted by the Commissioners as follows:

"That . . . be notified that the agreement of May 20, 1941, shall be in effect on January 2, 1949 under the above clause of the supplementary agreement of November 16, 1943, as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945."

In accordance with the foregoing directive, the following letter was sent to the purchaser by the Secretary to the Commission:

November 23, 1948

Dear Sir:

This is to inform you that the agreement of May 20, 1941 between you and this Department, on the matter of the purchase of a portion of the Nashua Street parking space, shall be in effect on January 2, 1949, under the clause of the supplementary agreement of November 16, 1943 - 'that if it appears to the Department that the necessary materials for the construction of the building are available said Department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect . . . ' as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945. In the opinion of this Department materials for the construction of the building are now available.

Very truly yours,

Reg. Mail

Secretary

Despite the foregoing, no further payments have been received to date of audit. In this connection it was noted that the Department's file on this case was transmitted to the Attorney General on January 29, 1951 and was returned on December 10, 1952 without comment. It was understood that the Department is now in the process of reviewing the whole matter.

A permit was issued effective May 1, 1950 granting the use of the State parking lot diagonally across the street from the Public Works Building for the public parking of automobiles during the hours 7 P.M. to 1 A.M. and all day Saturday, Sundays and Holidays. The permit expired December 31, 1950 and the tenant has since been occupying the premises as a tenant-at-will. It was understood that the area provides space for parking approximately 300 cars.

Under the terms of the permit the Commonwealth was to get 10% of the gross receipts payable the first day of each calendar month beginning May 1, 1950, each payment to be accompanied by a sworn statement.

The permit provided that the permittee shall keep accurate records of operations in a manner satisfactory to the Department, such records to be available for inspection by the Department at all times. In this connection it was understood that the Department has not exercised its right of inspection.

The records in the Department show that the following amounts have been received:

| | |
|---|-----------------|
| Fiscal Year 1950 | \$ 15 00 |
| Fiscal Year 1951 | 187 85 |
| Fiscal Year 1952 | 353 70 |
| Fiscal Year 1953 (July 1952 - May 1953) | 298 90 |
| | <u>\$855 45</u> |

Federal Aid Funds: From an examination of the Federal Aid Fund program balances available to this Department for expenditure on Surveys - Plans for National Defense projects it was determined that the program had been completed in April 1952. In accordance with the terms of the Federal Aid Allocation for the program the following unexpended project balances reverted to the Federal Government as of April 30, 1952:

| <u>Project No.</u> | <u>Allotment</u> | <u>Total Costs</u> | <u>Unexpended Balance</u> |
|--------------------|------------------|--------------------|---------------------------|
| AE-FAP-272-H-(1) | \$10,000 00 | \$ 8,984 97 | \$1,015 03 |
| AE-FAP-272-I-(1) | 27,500 00 | 24,154 04 | 3,345 96 |
| | | | <u>\$4,360 99</u> |

Fees Paid to Consultant of Accounting System: An examination of the expenditures charged to the Appropriation Account for "Highways Engineering and Administration", for the current audit period indicated that on January 28, 1953 the sum of \$6,913.83 had been paid to an accounting firm for services as a consultant on the accounting system of the Department and for putting into effect such changes and alterations in the present system as were ordered by the Commissioner of Public Works. It would seem that expenditures of this nature are contrary to statute. In this connection the following statutory citations are shown:

Chapter 7 - Section 16 of the General Laws (Relating to duties of the State Comptroller) states:

"He shall design and install an accounting system for the commonwealth and prescribe the requisite forms and books of account to be used by each department, office, commission and institution of the commonwealth. No form or book of account other than that prescribed as aforesaid shall be used without the approval of the comptroller. He may revise such forms, books or system from time to time. He shall prepare and distribute a book of instructions covering the use and application of said accounting system for the guidance of the various departments, offices, commissions and institutions of the commonwealth."

Chapter 7 - Section 17 of the General Laws also states:

"He shall keep all general books of account and determine the extent and character of subsidiary accounts to be kept by all departments, offices, commissions and institutions of the commonwealth. He shall have full authority to prescribe, regulate and make changes in the method of keeping and rendering accounts. He shall establish in each such department, office, commission and institution a proper system of accounts, which shall be uniform so far as is practicable, and a proper system of accounting for stores, supplies, materials and products, and may provide, when he deems it necessary, for a continuing inventory thereof. He shall provide such safeguards and systems of checking as will ensure, so far as possible, the proper collection of all revenue due the commonwealth, and where he deems it necessary, shall provide that forms and receipts shall be numbered consecutively, making each such department, office, commission or institution responsible for their use or cancellation."

Chapter 7 - Section 31 of the General Laws further states in part:

"Commissioners to Decide Questions as to Accounting Standards, etc., and to Approve Contracts by State Purchasing Agent. - The commissioners, acting as a board, shall decide questions, not involving legislation, which arise on matters relating to accounting standards and practices other than those relating to the accounting system in use under sections sixteen and seventeen of this chapter. . . ."

In further connection with this matter an examination of the Departmental Budget Request for the 1953 fiscal year indicates that no provision was made for the services of such Accounting Consultant in the budget item, "Highways Engineering and Administration", which reads as follows:

"The following is a detailed estimate of this appropriation:- Highways Engineering and Administration - This account provides for salaries and expenses in connection with supervisory work of the Highway Division, and the work, because of its nature, which cannot be or which is impractical to be directly charged to projects. This includes the charges in connection with the offices of the Chief Engineer, Division Engineers, District Highway Engineers, service groups, etc."

The practice of a State Department in engaging the services of a consultant to perform certain functions and duties which distinctly come within the province of another State Agency establishes a poor precedent, which, if followed by other State Departments, might result in complete confusion, etc.

A summary of the fees paid to this Accounting Consultant for services performed for the period January 19, 1949 to December 31, 1952 follows:

Classification of Employees

| Contract No. | Fiscal Year | Supervising | | | | Total Payments |
|-----------------------|-------------|--------------------------------------|--------------|--------------|---------|----------------|
| | | Senior | Senior | Semi-Senior | Junior | |
| 4369 | 1949 | 135 1/4 hrs. | 147 hrs. | 193 1/2 hrs. | - | \$ 4,784 20 |
| 4389 | 1950 | 192 hrs. | 63 hrs. | 685 3/4 hrs. | - | 8,270 96 |
| 4660 | 1951 | 75 hrs. | 93 3/4 hrs. | - | - | 2,008 50 |
| 4893 | 1952 | 69 3/4 hrs. | 80 1/2 hrs. | - | - | 1,801 03 |
| 5135 | 1953 | 60 hrs. | 224 3/4 hrs. | - | - | 3,104 30 |
| 5297 | 1953 | No Payments Made to February 2, 1953 | | | | - |
| Total Hours | | 532 hrs. | 609 hrs. | 879 1/4 hrs. | - | - |
| Rate per Hour | | \$14.2857 | \$10.00 | \$7.1428 | \$5 00 | |
| Contract Rate per day | | \$100 00 | \$70 00 | \$50 00 | \$35 00 | |
| Total Payments | | \$7,599 99 | \$6,090 00 | \$6,279 00 | - | \$19,968 99 |

In connection with the foregoing expenditures attention is directed to the fact that the invoices for Contract Numbers 4660, 4893 and 5135 referred to a "Report on Survey and Work Performed", yet it was determined that one report, which refers to Contract No. 5135, was submitted to the Department.

With reference to the work performed, only two reports could be located in the Department files. These reports were applicable to Contracts 4389 and 5135 and generally consisted of a review of the activities and problems existing within certain sections of the Department. The subject of remedial action concerning these sections are discussed in a general manner in these two reports. However, no written recommendations applicable to changes, alterations or improvements in the accounting system of the Department could be found in the files to substantiate the consultant's invoices for providing services to the Commonwealth to the extent of \$19,968.99.

Fees Paid to Consultants in Connection with Department Publications: In further connection with the expenditures charged to the appropriation account for "Highways Engineering and Administration", for the period under audit it was noted that fees were also paid to two consultants for services in connection with the compiling and indexing of research and statistical data. This information was assembled for the Department in connection with its proposed publication of a book to be entitled, "Laws Relating to the Administration, Duties, Engineering and Maintenance Functions, Personnel and Powers of the Department of Public Works".

Most of the data submitted by the above consultants was compiled from the General Laws and Special Acts of the Commonwealth of Massachusetts. The fees for this total

\$37,600.00 without taking into consideration the cost of printing which to date has not been approved by the Commissioner. From the foregoing it would appear that the publication of this volume which would include statutes, rulings, and legal opinions already made available through authoritative sources apparently represents a duplication of information available elsewhere.

A review of the Budget Requests for the 1952 and 1953 fiscal years indicates that no provision was made for the publication of the proposed book or for any related consultant's fees in the budget item, "Highways Engineering and Administration". The following summarizes the fees already paid to consultants in connection with this publication:

| <u>Period Covered</u> | <u>Rate</u> | <u>Total Payments</u> |
|--------------------------------|-------------------------|-----------------------|
| Nov. 14, 1949 to June 30, 1950 | \$500 00 per month each | \$ 7,600 00 |
| July 1, 1950 to Dec. 31, 1950 | 500 00 per month each | 6,000 00 |
| Jan. 1, 1951 to June 30, 1951 | 500 00 per month each | 6,000 00 |
| July 1, 1951 to June 30, 1952 | 500 00 per month each | 12,000 00 |
| July 1, 1952 to Dec. 31, 1952 | 500 00 per month each | 6,000 00 |
| | | <u>\$37,600 00</u> |

Bid Bond Forfeited: On May 15, 1952 the Board awarded the contract for constructing the steel superstructures for a section of the John F. Fitzgerald Expressway in the City of Boston to the lowest bidder. The following is a list of the respective bids:

| | <u>Amount</u> |
|----------|----------------|
| Bidder A | \$1,603,817 10 |
| Bidder B | 2,103,146 55 |
| Bidder C | 2,188,657 40 |

On May 23, 1952, the Board received a written notice from the lowest bidder advising the Department that it would be unable to execute the contract. The Board thereupon declared the bid bond of \$50,000.00 posted by the contractor as a proposal guarantee for the project to be forfeited to the Department as liquidated damages for the delay and expense incurred because of the abandonment of the contract. The money was paid to the State Treasurer on May 27, 1952 and was credited to the "Fines and Penalties" account of the Highway Fund.

The project was readvertised for bids on May 24, 1952, and was awarded to the lowest bidder, for \$2,119,648.65 on June 13, 1952.

Damages Due from Contractor's Surety Company: It was noted that a contract awarded on August 29, 1950 in the amount of \$326,710.75 for the reconstruction of a section of State highway in the towns of Holden and Rutland to be completed by September 1, 1951 was abandoned on June 21, 1952 by the contractor due to circumstances beyond his control. The value of the work completed on the contract totaled \$239,161.80 leaving a balance of \$87,548.95. Subsequently the Board on June 24, 1952 authorized the surety on the bond for the contract to proceed with the completion of the previously abandoned contract.

On August 5, 1952 the Board received a report from an official of the Department which stated, that prior to the abandonment of the project the contractor had completed a section of macadam surfacing of approximately 9,500 feet in Holden and 750 feet in Rutland at a cost to the State of \$22,097.86. This surfacing was subsequently found to be unsatisfactory and unacceptable. To bring this section of road into condition for acceptance the Department and the bonding company executed an agreement, effective August 15, 1952, whereby the bonding company agreed to complete resurfacing with a 1 1/2 inch pavement of bituminous concrete, which it is estimated will cost approximately \$20,000.00. It was also agreed that the Department and the bonding company would each pay 50% of the cost.

The records indicate that this work was completed in April 1953 at a total cost of \$20,191.80 of which \$10,095.90 will be paid by the Department. It was also understood that action will be taken against the bonding company upon the completion of the contract to recover damages for unacceptable macadam surfacing for which the Commonwealth paid \$22,097.86.

Liquidated Damages Assessed Subsequently Waived: It was noted that the Board

acting on the recommendation of its District Highway Engineer assessed liquidated damages in the amount of \$10,315.14 against a Contractor on August 19, 1952 for "Failure of Contractor to provide adequate organization to do work".

The following indicates the expenses incurred as the result of the Contractor's failure to complete the specified contract within the specified period of time:

| <u>Description of Expense</u> | <u>Hours</u> | <u>Cost</u> |
|--|--------------|--------------------|
| Extra Time of Engineers - Due to Delay | 3113 | \$ 7,489 01 |
| Extra Time of Traffic Men - Due to Delay | 2457 1/2 | 2,826 13 |
| | | <u>\$10,315 14</u> |

In connection with the foregoing it was also noted that on February 24, 1953, the Board waived the clause in the contract relating to liquidated damages on the basis of a report approved by the Chief Engineer, which recommended that the assessment of liquidated damages be rescinded because of the following:

1. The Contractor encountered difficulty in obtaining local labor to perform work on the contract.
2. The Contractor conducted the work on the contract at a loss to himself.
3. The Contractor mortgaged most of his equipment to finance the project.

As a matter of information it is maintained that on reviewing the contract under discussion no provisions were noted specifically exempting the contractor from reimbursing the Commonwealth for damages suffered for any of the aforementioned errors.

Extra Work Orders Completed Prior to Board Approval: An examination of the extra work orders applicable to highway construction contracts completed during the current audit period indicated that certain extra work orders were permitted to be executed prior to Board approval and Notice of Intention being filed with the Comptroller, as required by Chapter 29, Section 20A of the Tercentenary Edition of the General Laws, which reads as follows:

"Public Inspection of Certain Orders and Claims, in Advance of Approval or Rejection Thereof, in Connection with State Contract. - No order for, or claim for payment for, extra work or materials, furnishings or equipment, in addition to an existing contract for the construction or repair of any structure or of public works of any nature whatsoever or for equipment or furnishings, shall be approved by any official, board, department or commission on behalf of the commonwealth until one week after notice of intention to act upon such order or claim shall have been filed by him or it with the comptroller; . . . "

Following is a list of the extra work orders completed prior to Board authorization:

| <u>Contract No.</u> | <u>Extra Work Order No.</u> | <u>Extra Work Amount</u> | <u>Contract Completed</u> | <u>Notice of Intention</u> | <u>Board Approval of Extra Work Order</u> |
|---------------------|-----------------------------|---------------------------|---------------------------|----------------------------|---|
| 4485 | #10 | \$ 3,800 00 | June 10, 1952 | Feb. 25, 1953 | Mar. 4, 1953 |
| 4485 | #11 | 6,200 00 | June 10, 1952 | Mar. 10, 1953 | Mar. 17, 1953 |
| 4566 | #8 | 6,800 00 | June 11, 1952 | Aug. 12, 1952 | Aug. 19, 1952 |
| 4659 | #5 | 2,400 89 | Dec. 31, 1952 | Feb. 25, 1953 | Mar. 4, 1953 |
| 4771 | #6 | 994 27 | Aug. 29, 1952 | Jan. 13, 1953 | Jan. 13, 1953 |
| 4834 | #2 | 9,300 00 | Apr. 25, 1952 | Aug. 7, 1952 | Aug. 19, 1952 |
| 4852 | #2 | 1,336 50 | Aug. 27, 1952 | Oct. 14, 1952 | Oct. 21, 1952 |
| 4902 | #2 | 3,400 00 | Oct. 2, 1952 | Feb. 10, 1953 | Feb. 17, 1953 |
| 4998 | #2 | 5,663 68 | Oct. 23, 1952 | Dec. 16, 1952 | Dec. 23, 1952 |
| 5107 | #1 & 2 | 1,076 00 | Sept. 30, 1952 | Nov. 4, 1952 | Nov. 4, 1952 |
| 5189 | #1 | 1,915 00 | Nov. 10, 1952 | Nov. 4, 1952 | Nov. 12, 1952 |
| Total | | <u>\$42,886 34</u> | | | |

In addition to the foregoing, the following two extra work orders were executed without any Board authorization and still remain unpaid:

| Contract No. | Extra Work Order No. | Extra Work Amount | Contract Completed | Notice of Intention | Board Approval of Extra Work Order |
|--------------|----------------------|--------------------|--------------------|---------------------|------------------------------------|
| 4485 | #9 | \$ 5,500 00 | June 10, 1952 | None | None |
| 4485 | #12 | 6,440 13 | June 10, 1952 | None | None |
| | | <u>\$11,940 13</u> | | | |

An examination of the "Notices of Intention" on file with the Comptroller's office in connection with these work orders did not indicate that the work was of an emergency nature.

Bridge Painting Projects Awarded Without Contracts: An examination of the expenditures charged to the appropriation account "Maintenance and Operations of Highways" indicated that payments totaling \$194,099.27 were made to Painting Companies during the current audit period on account of six Bridge Painting Projects, all of which were ordered on a per-diem basis without competitive bidding. Although one of the six bridge painting jobs, approved by the Board involved more than \$100,000.00, exclusive of the cost of the paint which was furnished by the Department, no effort was made by the Department to secure competitive bids as is required by Chapter 29, Section 8A of the Tercentenary Edition of the General Laws which reads in part as follows:

"No officer having charge of any office, department, or undertaking which receives a periodic appropriation from the commonwealth shall award any contract for the construction, reconstruction, alteration, repair or development at public expense of any building, road, bridge, or other physical property if the amount involved therein is one thousand dollars or over, unless a notice inviting proposals therefor shall have been posted, . . ."

In connection with these per-diem payments it was noted that all the checks issued were paid and charged to the Department "Hired Equipment Weekly Payroll" account. These per-diem rates covered painting crew equipment, insurance and all other costs excepting the cost of the paint which was furnished by the Department. The size of the crews which comprised from three to seven men accounted for the variance in the per-diem rates. The following shows a list of the Bridge Painting Projects authorized during the current audit period:

| Board Approval | Project | No. Units | Per-Diem Rate | No. Days | Total Cost |
|----------------|-------------------------------|-----------|---------------|----------|---------------------|
| July 8, 1952 | New Bedford, Fairhaven Bridge | 4 | \$285 00 | 60 | \$ 68,400 00 |
| July 8, 1952 | Fore River Bridge | 2 | 285 00 | 40 | 22,800 00 |
| July 8, 1952 | Lower Bridge, Haverhill | 1 | 190 00 | 20 | 3,800 00 |
| July 15, 1952 | Great River Bridge, Westfield | 1 | 125 00 | 40 | 5,000 00 |
| Aug. 12, 1952) | Lower Bridge, Haverhill) | 1) | 190 00) | 60) | 11,400 00) |
|) | O'Leary Bridge, Lawrence) |) |) |) |) |
| Aug. 26, 1952 | South Hadley Falls Bridge | 1 | 285 00 | 70 | 19,950 00 |
| Sept. 30, 1952 | New Bedford, Fairhaven Bridge | 2 | 285 00 | 40 | 22,800 00 |
| Sept. 30, 1952 | Fore River Bridge | 1 | 285 00 | 50 | 14,250 00 |
| Oct. 21, 1952 | Fore River Bridge | 1 | 285 00 | 60 | 17,100 00 |
| Nov. 12, 1952 | O'Leary Bridge, Lawrence | 1 | 190 00 | 20 | 3,800 00 |
| Nov. 25, 1952 | New Bedford, Fairhaven Bridge | 2 | 285 00 | 30 | 17,100 00 |
| Dec. 9, 1952 | O'Leary Bridge, Lawrence | 1 | 190 00 | 15 | 2,850 00 |
| | Total | | | | <u>\$209,250 00</u> |

Refund Due Department by a Contractor: It was noted that there was due the Department the sum of \$153.09 from a contractor who had submitted incorrect insurance rates on his invoice to the State for reimbursement of salaries and expenses of Traffic Officers employed in connection with contract #4834 - Repairs to Cowles River Bridge in the City of Westfield. It is understood that the insurance rates submitted by the contractor on this project were applicable to a previous construction project. The following schedule

shows the submitted and correct insurance rates applicable to the refund in question:

| <u>Description</u> | <u>Submitted Rate</u> | <u>Correct Rate</u> | <u>Excessive Rate</u> |
|-----------------------|-----------------------|---------------------|-----------------------|
| Workmens Compensation | 12.675% | 11.304% | 1.371% |
| Public Liability | .640% | .688% | (.048%) |
| Excessive Rate Paid | | | <u>1.323%</u> |

Salaries Paid Traffic Officers \$11,571.00 X 1.323% = \$153.09

Survey Party Contracts: It was noted in checking the completed Survey Party contracts which totaled \$681,931.53 for the current period, that the Department did not maintain daily or weekly time records to which the contractor's invoices for services performed by 4-man survey parties, working an 8-hour day could be verified. It was learned that the basis for payment of these invoices is the "Daily Report of Chief of Survey Party" which is prepared by the contractor's survey party chief daily and is mailed directly to the Director of Surveys of the Department without the prior approval of the Department's District Survey Supervisor responsible for the immediate supervision of survey parties in his district.

As a matter of information the following excerpts from a "survey" contract which was executed during the audit period are shown:

Description of Work: It is the intent of this contract that a survey party or parties in charge of a Chief be provided and assigned to project by the Director of Surveys of the Department of Public Works. The survey work shall be under the immediate supervision of the District Survey Supervisor.

The survey party or parties shall be engaged on base line, detail, sections or any type of work that is required of the regular Department survey parties.

Hours of Employment: The survey party or parties shall work eight (8) hours per day for a five (5) day week and if required to work on a Saturday the basis of payment will be at the same daily rate as for other days.

Basis of Payment: This work shall be paid for at the contract unit price per day of eighty (\$80.00) dollars with additional allowance being made for travel expenses.

Completion: The work covered by this contract shall be for the period commencing July 1, 1952 and extending through December 31, 1952.

Termination: The Department reserves the right to terminate the contract at any time upon ten day's written notice.

In checking the contractor's daily work reports to their invoices on contracts completed during the current audit period the following inconsistencies were noted:

1. There were 48 Daily Reports signed by Contractor's survey party chiefs which indicated that the survey party working on those days consisted only of the crew chief and two assistants conflicting with the Contractor's invoices which indicated a 4-man survey party having worked on those dates.

2. There were six Daily Reports signed by Contractor's survey party chiefs which indicated that the 4-man survey party working on those days worked only 4 hours conflicting with the Contractor's invoices which reported a 4-man survey party as having worked 8 hours on those dates.

3. Several Daily Reports signed by Contractor's survey party chiefs listed the names of their assistants but failed to include the number of hours which they worked.

As a result of the foregoing the apparent overpayments to contractors concerned as listed in the previous paragraphs were reported to the proper departmental officials and as a result notices were mailed to the contractors concerned requesting refunds as follows:

| <u>Contractor</u> | <u>Amount</u> |
|-------------------|-----------------|
| P. K. B. | \$ 48 00 |
| C. & R. Inc. | 64 00 |
| C. E. C. | 120 00 |
| R. F. C. | 72 00 |
| N. E. S. S. Inc. | 144 00 |
| H. R. F. | 84 00 |
| W. T. M. | 284 00 |
| Total | <u>\$816 00</u> |

In further connection with the foregoing refunds totaling \$332.00 were received from two of the aforementioned contractors while the audit was in progress.

Construction Temporarily Delayed by Occupancy of Condemned Buildings: An examination of the projects under contract on the date of audit indicated that the progress of construction was delayed during the current audit period on contract #5071 for the construction of the Substructure and Approaches for a Part of the John F. Fitzgerald Expressway between Haymarket Square and Oliver Street in the City of Boston. This action was necessitated by the failure of certain occupants to vacate buildings awaiting demolition in the so-called market area of Boston because of their location in the direct path of the expressway, an integral section of the Boston Arterial Highway.

It was noted that this contract, which has completion date of March 31, 1955, indicated that the Department was aware of the possibility that the contractor might experience delay because of the failure of occupants to vacate buildings in the path of construction and accordingly inserted the following special provisions into the contract to protect the Commonwealth from claims for damages by the contractor:

"Removal of Buildings and Land Takings: (Superseding Article 69) - Demolition and removal of buildings as shown on the drawings will be done under this and other contracts awarded by the Department. The Contractor is warned that delay may be encountered in the prosecution of demolition work, and his attention is directed to the stipulations of Articles 68 and 69 wherein he shall have no claim for damages for any delay in the prosecution of the work due to continued possession of the buildings by owners or tenants. If any buildings are not released until a date later than October 1, 1953, the Contractor will be granted a corresponding extension of time to complete his work."

"The Department shall not be held liable for any expense to the Contractor because of delay in making the necessary land takings or in vacating or demolishing buildings."

It is also understood that the primary reason for the market area dealers failing to vacate the buildings awaiting demolition was the inability of the Massachusetts Market Authority to provide new and suitable locations for the market dealers before that Authority ceased its activities early in 1953. In March 1953, legislation was initiated which would grant these dealers additional time to September 1, 1953 for the purpose of relocating their businesses. The records of the Department further indicate that none of the present occupants of the buildings taken by the Commonwealth in connection with this contract have ever paid rent to the Commonwealth since the date of taking. The following shows the 46 parcels in this area which were still occupied on March 26, 1953:

| <u>Section</u> | <u>Parcel Nos.</u> | <u>Total Parcels</u> | <u>Date of Taking</u> |
|----------------|--|----------------------|-----------------------|
| 5 | 1, 2, 3, 4, 5, 6, 7, 8, | 8 | Mar. 9, 1951 |
| 11 | 1, 2, 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24 | 22 | June 29, 1951 |
| 12 | 1, 2, 3, 4 | 4 | July 16, 1951 |
| 13 | 1, 2, 3, 4, 5, 6, 8, 10, 11, 12, 14, 15 | 12 | Dec. 28, 1951 |
| | Total Parcels | <u>46</u> | |

The records further indicate that this particular contractor has during the six year period ended January 31, 1953 completed only one contract within the agreement period.

It was further noted that the referred to contracts were completed from 78 days to 423 days after the contract completion dates. Although the Department incurred expenses because of the delay in completing the construction of these projects the Board waived its claims to any damages because of the foregoing. The following contracts were completed by this contractor during that period:

| Contract No. | Contract Awarded | Location | Total Work Completed | Contract Completion Date | Actual Completion Date |
|--------------|------------------|--|----------------------|--------------------------|------------------------|
| 989* | Jan. 16, 1948 | Logan Airport | \$ 424,587 71 | July 1, 1948 | Dec. 28, 1948 |
| 1028* | Sept. 15, 1948 | Logan Airport | 950,612 45 | June 30, 1949 | Sept. 16, 1949 |
| 3945 | May 24, 1946 | Lynnfield | 280,215 20 | June 1, 1947 | Sept. 18, 1947 |
| 4209 | July 6, 1948 | East Boston | 6,713,829 68 | June 30, 1950 | Aug. 27, 1951 |
| 4485 | Jan. 11, 1950 | Needham-New- ton-Wellesley- Weston | 3,517,044 73 | Nov. 1, 1951 | June 10, 1952 |
| 4659 | Nov. 7, 1950 | East Boston | 3,140,813 20 | Dec. 31, 1952 | Dec. 31, 1952 |

- * The Logan Airport contracts were transferred to the jurisdiction of the State Airport Management Board by the Department as of January 1, 1949. The final estimates have not yet been signed by the contractor on both Contracts #989 and #1028 per "S.A.M.B." records. No damages assessed by "S.A.M.B." on these contracts to date.

Transits: In this connection confirmation notices were mailed to those employees of this Department who were charged with having transits in their custody. Of these, thirteen were not returned. Ten of these transits were accounted for by checking from a departmental verification which was made in April 1953. It was found in certain instances that these units had been transferred to other employees without a correcting entry having been made.

It was noted that two transits, Nos. 135 and 137 had been charged off, by a vote of the Board at its meeting held May 13, 1952. These transits had been previously reported as stolen. It was also noted that transit No. 209, reported as stolen on or about April 7, 1952, had been charged off at a meeting of the Board on January 13, 1953.

Division of Waterways

Books of Accounts: The previous audit report stated that the general ledger had not been posted since June 30, 1945, and that it was understood from the head administrative clerk that every effort would be made to bring it up to date. It was again noted, however, that on the current audit date the same condition prevailed. It is suggested that arrangements be completed to make the necessary entries in the general ledger and that all postings be made currently thereafter.

Advances from State Treasurer: An examination of the Advance Fund receipts and disbursements for this audit period indicates that certain accounting transactions in this Division do not conform to the accounting directives appearing in the Comptroller's Accounting Manual.

The following shows the particular Comptroller's regulations together with related transactions which do not appear to be in agreement:

Regulation - "Repayment of Advances": The cash balance of all advances will be returned at the close of the fiscal year to the State Treasurer.

Transaction: The Division records indicate that advance moneys applicable to the 1952 fiscal year were returned to the State Treasurer on the following dates:

| Date | Receipts Voucher | Appropriation Account | Amount |
|---------------|------------------|-----------------------|------------|
| July 29, 1952 | 4 | #2202-05-10 | \$2,262 52 |
| Aug. 12, 1952 | 5 | 7722-88-00 | 15 42 |
| Aug. 12, 1952 | 6 | 2202-05-10 | 193 37 |
| Oct. 7, 1952 | 18 | 2202-05-10 | 29 08 |

| | | | |
|---------------|----|------------|-------------------|
| Oct. 16, 1952 | 20 | 2202-05-10 | \$ 163 27 |
| Oct. 28, 1952 | 21 | 2202-05-10 | 111 73 |
| Total | | | <u>\$2,775 39</u> |

Regulation - "Fund Receipts - Unpaid Checks": A spending agency must stop payment on all checks (excepting those issued for salaries or wages) which have been issued payable from the Commonwealth's funds and have not been cashed by the payee within one year from the date of their issue. These amounts must be paid into the State Treasury to be credited to the Unpaid Check Fund.

Transaction: A bank reconciliation of the Division Advance Fund as of February 2, 1953, indicated twenty-one checks more than two years old which were outstanding. A list of these checks follow:

| <u>Year Issued</u> | <u>No. of Checks</u> | <u>Total Amount</u> |
|--------------------|----------------------|---------------------|
| 1939 | 2 | \$ 4 44 |
| 1940 | 3 | 8 40 |
| 1942 | 2 | 5 32 |
| 1943 | 2 | 3 55 |
| 1944 | 1 | 9 53 |
| 1945 | 1 | 4 45 |
| 1946 | 7 | 41 43 |
| 1947 | 1 | 2 00 |
| 1950 | 1 | 25 00 |
| 1951 | <u>1</u> | <u>2 00</u> |
| | 21 | <u>\$106 12</u> |

Accounts Receivable - Overdue Accounts: In aging the accounts receivable it was noted that 168 accounts, totaling \$15,172.16 and dating back to 1951 and prior years, were still carried in an active category.

During previous examinations of the records of the Waterways Division, suggestions were made that all accounts more than one year old be turned over to the Attorney General for collection or disposition.

In this connection the Comptroller's Bureau Accounting Manual also provides that overdue accounts be referred to the Attorney General for collection and provides further that they be set up in a separate suspense accounts receivable. It is again suggested that these provisions be followed.

Accounts Receivable - Verification Notices: The outstanding accounts receivable as of date of audit totaled \$47,306.58 and comprised 200 accounts. Verification notices were mailed to approximately 20% of these accounts. Several notices were returned by the Post Office Department marked, "address unknown". A few others were also returned with notations indicating they had no record of the charge. These latter cases were referred to the head administrative clerk of the Department and duplicate bills or the explanations were sent. From the foregoing it would appear that the accounts should be controlled more carefully. In the case of overdue accounts, statements should be rendered at least monthly.

Suspense Accounts Receivable: It was noted that the Suspense Accounts Receivable of this Division consisted of four accounts. Two of these were found to be in the hands of the Attorney General. No record, however, of the other two accounts could be found in the Attorney General's office. It is, therefore, recommended that the latter two accounts in the respective amounts of \$3,503.62 and \$573.83 be again submitted to the Attorney General for collection or disposition.

Gloucester Fish Pier: On February 26, 1937 the Commonwealth of Massachusetts through this Department, in accordance with the provisions of Chapter 311 of the Acts of 1931, Chapter 303 of the Acts of 1936 as amended by Chapter 29 of the Acts of 1937 and Chapter 91 of the General Laws, leased to Gloucester Community Pier Association, Inc., the Gloucester Fish Pier with certain buildings to be erected thereon at an annual rental of \$20,000.00, said lease to run for twenty years. On October 10, 1949, the lease was extended for a twenty-year period to September 30, 1969, and the rent was increased to \$25,000.00 annually to be paid quarterly, beginning October 1, 1949.

Under the provisions of Chapter 653 of the Acts of 1945, as amended by Chapter 663 of the Acts of 1947, the Department of Public Works was authorized to expend not more than \$350,000.00 to make certain additions to a building and its equipment which are located on the Gloucester Fish Pier, provided that the Department shall first execute an agreement with the Gloucester Community Pier Association, Inc. to reimburse the Commonwealth for the cost of such work in twenty equal annual installments, the first to be made on the date of completion of the work. Such an agreement was executed as of October 10, 1945 and was amended on September 3, 1947. The work was completed on December 19, 1949 at a cost of \$349,479.34 and the first annual payment of \$17,473.97 was accordingly received on January 31, 1950. In this connection it was noted that the fourth annual payment which was due December 19, 1952 was still unpaid on the date of audit, February 2, 1953.

Leases Between Commonwealth of Massachusetts and the Fall River Line Pier, Inc.: Under Authority of Chapter 665 of the Acts of 1945 and Chapter 308 of the Acts of 1947, a lease was entered into on May 17, 1948 for a term of twenty years in the aggregate rental of \$1,000,000.00. This rental was divided to be paid in each of the years as follows:

| | | |
|--------------------|--------------------------|-----------------------|
| \$22,000 00 yearly | First 2 years | \$ 44,000 00 |
| 24,000 00 yearly | 3rd year | 24,000 00 |
| 30,000 00 yearly | 4th year | 30,000 00 |
| 38,000 00 yearly | 5th year | 38,000 00 |
| 46,000 00 yearly | 6th year | 46,000 00 |
| 51,000 00 yearly | 7th and 8th year | 102,000 00 |
| 50,000 00 yearly | 9th to 14th year | 300,000 00 |
| 55,000 00 yearly | 15th year | 55,000 00 |
| 63,000 00 yearly | 16th year | 63,000 00 |
| 70,000 00 yearly | 17th year | 70,000 00 |
| 76,000 00 yearly | 18th, 19th and 20th year | 228,000 00 |
| Total | | <u>\$1,000,000 00</u> |

The annual rentals are to be paid in equal quarterly payments as follows: the first quarterly payment to be made three months after the date of the lease and subsequent payments on corresponding dates of every third month in each year during its term.

In this connection a previous audit report stated:

"In reference to the foregoing lease, it was noted that the last payment made under it by the Fall River Line Pier, Inc. was through February 17, 1950, and that charges have only been set up to May 17, 1950. On the date of audit, there was an outstanding balance of \$5,500.00 in this account.

"In this connection, the following memorandum from the Chief Administrative Clerk to the Director of Waterways, which was entered in the board records on January 30, 1951 is shown:

COPY

January 25, 1951

"-----, Chief Administrative Clerk
-----, Director

Fall River State Pier
Unpaid rentals under lease

The last payment made by the lessees of the pier was for the quarter ending February 17, 1950. Bills have been rendered for the ensuing three quarterly periods, ending November 17, 1950. Several conferences have been held by the Commissioners with Fall River officials relative to the Department's inability to complete construction due to insufficient funds. The Fall River officials have stated that they could not make any further payments under the lease, as they have been deprived of potential income from the property, due to its incomplete state.

It appears that some revisions in the lease will be required covering rentals, but these will necessarily have to be delayed, pending additional legislation to modify rental requirements as set up under the enabling act.

The question of our continuing to send rent bills was discussed with Assistant Attorney General ----, who attended several conferences at the Commissioner's request, and Mr. ----, advised that we send the bills and simply hold copies as a pending matter for future adjustment, without entering them as accounts receivable, since there appears to be some doubt as to whether or not the rentals are collectible under present conditions.

This memorandum is submitted as a matter of record.

/s/ -----

Chief Administrative Clerk"

It was noted in connection with the current audit that the records in the Division of Waterways indicate that the Fall River Line, Inc., has been billed for \$73,000.00 for the period from May 18, 1950 to November 17, 1952, in accordance with the terms of the lease. This indebtedness is carried in a memorandum account, as suggested by the Department of the Attorney General, and does not appear in the accounts receivable ledger which shows a balance of only \$5,500.00.

On February 3, 1953 the matter was turned over to the Attorney General for disposition.

Contract for Construction at the State Pier Fall River: Bids for the construction of buildings, approaches and utilities at the State Pier in Fall River were opened on December 23, 1952. The lowest aggregate bidder presented a bid of \$575,693.25. It was noted that two of the other twelve bidders were potentially lower bidders because they had not used the lowest sub-bids available in their bid proposals. These latter two contractors who had offered the second and seventh lowest bids were contacted to see if they would be willing to revise their bids taking into consideration the lowest available subcontractors. The concern which was originally the seventh lowest bidder took advantage of this suggestion and as a result submitted a revised bid of \$565,365.50. Thereupon on January 8, 1953 the Department requested an opinion from the Attorney General as to the propriety of awarding this contract to this contractor on the basis of this revised bid. On January 12, 1953, the Attorney General advised the Department that the Commissioners had the authority to substitute the lowest acceptable sub-bids and to adjust the contract price accordingly under the provisions of the General Laws, Chapter 149, Sec. 44c, Subdivision D.

On January 16, 1953, the Department awarded the contract to this bidder, subject to their filing new subcontracts.

On January 22, 1953, the original lowest bidder in a letter to the Commissioner pointed out that Section 44c (A), Subsection 1 of the General Laws, Chapter 149 provides that "Bids from general contractors shall be for the complete project as specified and shall include the names of all principal and such minor subcontractors as are designated in the proposal form, and the general contractor shall be selected on the basis of such bid".

In view of this Company's objection, the Department requested a review of this matter and a further opinion from the Attorney General. On March 2, 1953, the following opinion was accordingly received:

COPY

THE COMMONWEALTH OF MASSACHUSETTS

Department of the Attorney General

State House, Boston 33

George Fingold
Attorney General

March 2, 1953

Department of Public Works
100 Nashua Street
Boston, Mass.

Gentlemen:

Your letter of recent date addressed to the Attorney General, requesting a review of the authority of the Department to substitute sub-bidders in the awarding of contracts for the construction of public works, has been referred to me for reply.

In the matter outlined by you, concerning the Fall River State Pier, it appears that the following pertinent bids were submitted:

| | ----- Corp. (lowest bidder) | ----- Co. (7th lowest bidder) |
|----------------------------------|--------------------------------|----------------------------------|
| Item 1 (Work of Gen. Contractor) | \$218,849 25 | \$208,521 50 |
| Item 2 (Work of Subcontractor) | 356,844 00 | 401,093 00 |
| | \$575,693 25 | \$609,614 50 |

Subsequent to the opening of the bids, the ----- Construction Co. offered to reduce its Item 2 bid involving subcontractors from \$401,093.00 to \$356,844.00, thus using the lowest sub-bids on file. ----- Construction Corp. had already submitted this figure in its original bid. Such a substitution of sub-bidders would reduce the total ----- bid from \$609,614.50 to \$565,365.50, a figure of \$10,327.75 lower than the ----- bid.

It is my opinion that the Department is not authorized to allow the substitution of sub-bidders by the ----- Construction Company under the foregoing circumstances. General Laws c. 149, s 44c, provides:

"Bids from general contractors shall be for the complete project as specified and shall include the names of all principal and such minor sub-contractors as are designated in the proposal form, and the general contractor shall be selected on the basis of such bid."

Authority to substitute sub-bids is found in part (D) of said section 44C which provides:

"If after the selection of the general contractor, it be decided to consider sub-contractors other than the ones named by the general contractor in his proposal, the awarding authority, architect and engineer, or any one or more of them, and the selected general contractor shall jointly consider the names of all proposed sub-bidders and their amounts, as given in the general contractor's proposal . . . If after the substitution of sub-contractors under this section or sub-section E, the selected general contractor is no longer the lowest responsible and eligible bidder, then a new selection shall be made and the sub-bidders of said newly selected general contractor similarly considered."

The statute contemplates that a general contractor shall first be selected on the basis of his total bid. The bid of the ----- Construction Corp. appears to justify its selection as such general contractor. Thereafter the sub-bidders of such general contractor may be substituted under the statute. The ----- Construction Corp. has already used the bids of the lowest responsible sub-bidders so that there is no occasion for the substitution of sub-bidders.

In order to accept the bid of the ----- Construction Co. it would be necessary for the Department to make substitutions of sub-bidders prior to the selection of the general contractor. Such a procedure is not authorized by the statute. The fact that in this particular case it would appear that the Commonwealth might benefit by an award to the ----- Construction Co. does not of itself justify a departure from the requirements of the statute. Cf. Gifford v. Commissioner of Public Health, 328 Mass. 608, 105 NE (2) 476, 481 (1952).

I regret that my analysis of the situation brings me to a conclusion different from that expressed by Mr. ----- in his letter to you dated January 12, 1953.

Very truly yours,

/s/ -----

Assistant Attorney General

MOS

On March 3, 1953, the Department rescinded the award to the ----- Construction Co. and awarded the contract to the original lowest bidder.

Contracts Not Awarded to Low Bidder: It was noted that two contracts were awarded during the audit period by this Division to other than the lowest bidders, as follows:

| <u>Contract Number</u> | <u>Contract</u> | <u>Low Bid</u> | <u>Second Low Bid</u> | <u>Reason for Rejection</u> |
|------------------------|---|----------------|-----------------------|---|
| 1223 | Fill, riprap and drainage in Cohasset Harbor | \$16,238 25 | \$17,715 00 | Unsatisfactory performance by low bidder on prior contracts |
| 1236 | Wall repairs at Ocean Bluffs and Brant Rock, Marshfield | 25,507 00 | 26,970 00 | Unsatisfactory performance by low bidder on prior contracts |

INDUSTRIAL ACCIDENT BOARD

REPORT NO. 53-75

Bonded Positions: The previous audit report noted that the Chairman of the Board, Secretary of the Board, Assistant Secretary, Legal Assistant, Head Administrative Clerk, and a Junior Clerk, all of whom had access to the office safe and cash, were not bonded. On the date of the current audit it was again noted that none of the foregoing were bonded. This fact was called to the attention of the Secretary of the Board during the course of this audit, who arranged to change the combination of the office safe and now only the bookkeeper, who is presently bonded in the amount of \$1,000.00 and a junior clerk in the bookkeeping office will have access to this safe. It is also understood that in addition the following employees will be bonded for \$1,000.00 each, effective February 1, 1953:

Chairman of the Board
Secretary of the Board
Junior Clerk

Accounts Receivable: It was noted that the outstanding accounts receivable as of January 12, 1953 amounted to \$4,974.51 and were aged as follows:

| <u>Calendar Year</u> | <u>Charges</u> |
|----------------------|-------------------|
| January 1 - 12, 1953 | \$ 972 50 |
| 1952 | 3,188 05 |
| 1951 | 134 50 |
| 1950 | 15 00 |
| 1949 | 310 00 |
| 1948 and prior years | 354 46 |
| | <u>\$4,974 51</u> |

It is suggested that all overdue accounts be referred to the Attorney General for collection or disposition.

Attention is called to the fact that the unpaid charges include assessments of \$275.00 made in 1948 and \$300.00 in 1949 on insurance companies and self-insurers for cost of failure to file notice of injury reports as required under Section 19 of Chapter 152 of the General Laws.

Suspense Accounts Receivable: The examination of the Suspense Accounts Receivable ledger for this audit period indicated that the charges for reimbursement of Impartial Examinations, which are pending in that account, had increased from 43 items on April 24, 1952 to 55 items on January 12, 1953.

An analysis of these charges on the date of audit follows:

| <u>No. of Cases</u> | <u>Amount</u> | <u>Age</u> |
|-------------------------|-----------------|--------------------|
| 34 | \$692 00 | 12 months or under |
| 16 | 207 00 | 13 to 18 months |
| 5 | 64 00 | 19 to 23 months |
| <u>55</u> | <u>\$963 00</u> | |

It is suggested that the Board review this situation, with the possible result of reducing the number of cases in this category.

Public Employees Compensated for Injuries: Attention is called to the fact that the appropriation for this purpose has been increased from \$132,500.00 in the 1948 fiscal year to \$413,000.00 in the 1952 fiscal year. The reasons advanced for this increase have been indicated as follows:

- (a) Higher medical and hospital charges because of the increased cost of these services.
- (b) Higher amounts of compensation paid out because of changes in industrial compensation laws.
- (c) Higher number of accidents due to greater number of State employees especially on Public Works Highway projects and Metropolitan District Commission construction.

In connection with the last item it was further noted that this Department had previously requested the Commission on Administration and Finance to inaugurate a safety program in order that the number of accidents might be reduced. However there still appears to be no official safety program for State employees in operation throughout the various agencies of the Commonwealth. It was also noted that legislation has been personally unsuccessfully sponsored in this direction by the Supervisor of Workmen's Compensation of the Industrial Accident Board to establish a Board of Accident Prevention on three different occasions during the past three sessions of the General Court.

Rehabilitation Commission: This Commission, which had been established by Section 1 of Chapter 767 of the Acts of 1950 in this Department, was transferred in accordance with Sections 1 and 12 of Chapter 630 of the Acts of 1951 to the Department of Education where it is functioning as a sub-committee of the State Board for Vocational Education under the title "Massachusetts Rehabilitation Commission".

At a meeting of the Governor and Council held on October 8, 1952 it was also voted to transfer the appropriation for the Massachusetts Rehabilitation Commission from the Department of Industrial Accidents to the Department of Education for the remainder of the 1952 - 1953 fiscal year in the total amount of \$7,905.00.

Insurance Deposit Fund: Attention is called to the fact that the balance in this fund on the previous audit date amounted to \$8,226.83 and represented funds of defunct foreign insurance companies and sureties held in trust by the Department for the payment of claims against such insurance companies. On May 16, 1952 the Department authorized payments from this fund to claimants, as follows:

| <u>Insurance Company</u> | <u>Outstanding Claims</u> | <u>Payment May 16, 1952</u> | <u>Per Cent of Claim</u> |
|--|-------------------------------|---------------------------------|------------------------------|
| Independence Indemnity Company and Sureties | \$17,764 29 | \$5,036 11 | 28.35% |
| Public Indemnity Company and Sureties | 20,020 89 | 3,178 41 | 15.88% |
| Union Indemnity Company and Sureties | 12 31 | - | |
| | <u>\$37,797 49</u> | <u>\$8,214 52</u> | |

The balance of this fund on the current audit date totaled \$12.31 and represented a claim of the receiver against the Union Indemnity Company.

In connection with the foregoing payments it was noted that nine checks totaling \$96.08 had been returned to the Department by the Post Office because of incorrect addresses.

Fatal Industrial Accidents: Under authority of Sections 65 and 65N of Chapter 152 of the Tercentenary Edition of the General Laws payments of \$500.00 are required to be paid by insurers or self-insurers into the "Industrial Accident Fund" or the "Veterans' Industrial Accident Fund", or into both funds if applicable, in each case of personal injury resulting in death which is covered by Chapter 152 of the General Laws. Said Sections 65 and 65N read as follows:

"Section 65. For every case of personal injury resulting in death, covered by this chapter, except silicosis or other occupational pulmonary dust disease, when there are no dependents, the insurer shall pay into the treasury of the commonwealth five hundred dollars. Such payments shall constitute a special fund in the custody of the state treasurer, who shall make payments therefrom upon the written order of the department for the purposes set forth in section thirty-seven and for the purpose of paying the expense of printing the necessary records, papers and briefs in certain appeals to the supreme judicial court as provided in section eleven. The reasonable expense of prosecution, if any, by the attorney general, of claim for deposit under this section, shall, subject to the approval of the department, be payable out of the special fund established hereunder.

"Section 65N. For every case of personal injury resulting in death covered by this chapter, the insurer or self-insurer shall pay into the state treasury five hundred dollars, such payment to be made in all cases regardless of whether the employee's dependents or personal representatives commence action against a third party under section fifteen. Such payments shall constitute a special fund in the custody of the state treasurer, who shall make payments therefrom, upon the written order of the department, for the purposes set forth in sections twenty-six and thirty-seven A."

Employers are now required by Section 19 of Chapter 152 of the Tercentenary Edition of the General Laws to report deaths of employees due to injuries received in the course of their employment to this Department. All Medical Examiners are also required to report to this Department all deaths which they believe to have been the result of an industrial accident. Dependents or other interested persons also have the right to report deaths allegedly due to an industrial accident.

All deaths so reported are recorded by the Inspection Section in a "Fatal Book", after which they are assigned to a Department Inspector who obtains the facts which enables the Department ultimately to determine whether the death is compensable.

After the final adjudication of each case their respective dispositions are recorded in the "Fatal Book".

The following are indicative of reasons advanced for completing a case:

1. Insurer accepts liability and pays into the Industrial Accident Funds the payments due by law.
2. Medical reports establish the fact that the death was not due to an industrial accident.
3. Insurer agrees to a lump sum settlement payable to dependents of the deceased.
4. Employer not covered by Workmen's Compensation Insurance. Employed less than 4 employees.
5. Employer outside of jurisdiction of Department - engaged in Inter-state Business.
6. Decision of Board against Insurer who is found liable for payments due under Section 65 or 65N of Chapter 152 of the General Laws.

The entries in the "Fatal Book" were examined in connection with the audit of this Department and it was noted that all entries are recorded in a loose-leaf memorandum ledger in alphabetical order and many deaths which were recorded since 1946 appear to be pending on the date of this audit, apparently because of the failure to record the disposition of the respective cases.

In this connection it is suggested with respect to this "Fatal Book" that:

- (a) All deaths be recorded in chronological order in a permanent bound book.
- (b) All entries in this record should be reviewed periodically and lists of deaths recorded over one year ago and not in process of adjudication be brought to the attention of the Board.
- (c) All monies due from Insurers as a result of Board findings and not paid to the Department be recorded in this folio.

BRADFORD DURFEE TECHNICAL INSTITUTE

REPORT NO. 53-77

Tuition: The tuition at this institute has been established by the Board of Trustees as follows:

| | |
|--------------------------------|-----------------|
| Residents of Massachusetts | \$100 00 a year |
| Non-Residents of Massachusetts | 250 00 a year |
| Foreign Countries | 500 00 a year |

Trust Funds: Section 43 of Chapter 74 of the Tercentenary Edition of the General Laws, as amended by Chapter 257 of the Acts of 1946, reads as follows:

"The Board of trustees of each of said institutes shall be a corporation for the purpose of taking by gift, bequest, or devise any real or personal property."

As has been stated in previous audit reports, the Board of Trustees voted on November 4, 1932, to transfer the management of all funds entrusted to its care to the B. M. C. Durfee Trust Company in Fall River.

The agreement in effect allows the bank to retain the custody of the securities and collect and distribute the income, subject to the direction and vote of the trustees. A nominal charge is made by the trust company for these services.

It is again suggested that the several notes held in the Students' Aid Fund, totaling \$101.41, which appear to be uncollectible and have been outstanding for approximately 20 years, be charged off the books.

Puerto Rico Industrial Development Fund: This fund was established by the Puerto Rico Development Company to aid students from Puerto Rico attending this institute. The president of this institute is the trustee of the fund.

Accounts Receivable: There is at the present time approximately \$12,000.00 in so-called Veterans' Suspended Accounts Receivable which has accumulated over a period of several years.

Generally these accounts represent charges in excess of the \$500.00 maximum which the Veterans Administration had agreed to pay for each veteran coming under the provisions of the agreement.

It would appear that some action should be taken to properly adjust these charges.

American Association of Textile Chemists and Colorists Fund: The Rhode Island Section of this Association donated \$1,000.00 to this institute to establish this fund. It is understood that the income from this fund is to be used to award an annual prize to the student submitting the best paper on any subject related to textile chemistry with the first award being made in 1952. It was noted, however, that no prize was awarded during the 1952 year.

Bookstore: In accordance with suggestions made in the audit report of the previous examination a cash book has been installed. The other records also indicated definite improvements.

ALCOHOLIC BEVERAGES CONTROL COMMISSION

REPORT NO. 53-78

Prompt Return of Income: The previous audit report included a comment relative to funds being held for a long period and listed items of cash, checks and a money order totaling \$110.00 as being on hand at that time. In connection with the current audit each of these items was traced to an entry in the cash book and to a conclusion with the exception of one item - a check for \$1.00 which had been received November 24, 1951.

On this audit date no income cash was found on hand in the office. A check for \$16.00 in payment of express and trucking permits had been returned by the bank marked "Insufficient Funds". The check was redeemed while the current examination was in progress.

Recording Cash for Serially Numbered Licenses and Permits: A suggestion in the previous audit report that a special columnar cash book be provided was adopted and a new cash book has been in use since November 1952.

Pending Refunds: The previous audit report included a list of refunds totaling \$113.00 which were then pending. The several items involved were checked to a refund schedule or to a permit or certificate subsequently issued.

As of the date of this audit there were five salesman's permits at \$10.00 each, and two transportation permits at \$1.00 each in the "pending" category.

Departmental Income Account: It is suggested that an account for departmental income be set up in the general ledger of the commission. An account of this nature is most important and should be forthwith included.

Excise Taxes: The Commissioner of Corporations and Taxation should advise this commission monthly of the amounts of excise taxes collected on its behalf. It was noted however, that the commission is informed of the amounts only at the end of each fiscal year. It is therefore suggested that such information be transmitted monthly.

Returned Check: It was noted that a check for \$1,500.00 which had been returned by the bank because of "Insufficient Funds" on January 6, 1953 was redeemed by the "Wholesaler - Importer" on January 9, 1953, together with a service charge of \$2.09 which had been paid by the commission.

WESTBOROUGH STATE HOSPITAL

REPORT NO. 53-79

Farm - Excessive Deaths Among Shoats and Pigs: It was noted that during the 1952 farm year 49 shoats and 136 pigs had died. This matter was discussed with the head farmer who stated that the deaths were due principally to pneumonia. Other causes included weakness at birth, insufficient supply of milk, and accidental deaths. He further stated that a boiler to heat the piggery has now been installed, sun reflectors added, and cold areas closed off to lower the death rate.

Canteen Accounts - Shortage in Inventory: The comparison of the physical inventory with the established book inventory on date of audit indicated a shortage of \$292.72, in relation to sales of \$31,086.28 for the audit period or a shortage of .94%.

BELCHERTOWN STATE SCHOOL

REPORT NO. 53-81

Bank Reconciliations: The previous audit commented that the pay roll bank statements on the date of audit had not been reconciled for three months. Inasmuch as on the date of this audit it was again noted that the bank statements of the pay roll bank account had not been reconciled for two months, it is recommended that immediate steps be taken to effect these reconciliations.

Signing of Checks: It was noted that all check books contained checks signed in blank by the treasurer. It was learned that these were signed in advance so that they would be available if the treasurer were absent. This is not an acceptable reason because the superintendent is also authorized to sign checks at this institution. It is therefore recommended that the signing of checks in blank in advance be discontinued immediately.

School Lunch Checks: It was noted that the checks received for the School Lunch Program from the Massachusetts Department of Public Welfare are made payable to the steward of this institution. It is understood that henceforth the State Treasurer will add the following notation to the face of these checks: "For deposit only and credit to the Belchertown State School."

Patients' Funds: It is recommended that the amount of Patients' Funds now in a commercial checking account be studied and that part of it which is not necessary in the normal course of operations be deposited in local savings accounts where interest may be earned.

Materials and Supplies: It was noted that overage adjustments made during the audit period totaled \$1,275.22, while the shortage adjustments during the same period were \$1,217.05 or an aggregate of \$3,218.91 on issues of \$438,564.39. The overage adjustments also included one for fuel in the amount of \$429.72.

1952 Farm Report: The 1952 farm report was examined and the results of operations for the 1951 and 1952 farm years were noted. It was noted that the results of operations for the 1952 farm year showed a loss of \$19,203.64 as compared to a gain of \$24,625.39 in 1951. This was found to be partly attributed to the following:

| | |
|--|-------------|
| Increase in the cost of Personal Services over 1951 | \$20,310 78 |
| Increase in the cost of Materials and Supplies over 1951 | 19,797 75 |
| Decrease in Farm Labor charged to Institution in 1952 | 10,919 67 |

It was also noted that production in the 1952 farm year was increased over the previous year by \$4,800.26.

MASSACHUSETTS REFORMATORY

REPORT NO. 53-82

Accounts Receivable: It was noted that there was included with the outstanding maintenance accounts receivable, an item of \$19.00 owed by another State institution since May 1950. It is suggested that steps be taken to dispose of this account.

Journal Entries: At the time of the previous examination it was suggested that all journal entries include complete explanations, etc. Inasmuch as nothing has been done in this regard this matter is again offered for consideration.

Farm Accounts: It was noted that the farm project sheets do not include charges for labor of employees. The dairy project sheet for the past farm year does not include any charge for bedding.

The farm records indicated that the milk production averaged 4402.5 quarts per cow for the year and was produced at an average cost of \$.149 per quart.

These records also indicated that each hen produced an average of 191.14 eggs during the year and that eggs were produced at an average cost of \$.546 per dozen.

Canteen Accounts: It is suggested that steps be taken to show the selling price of all items purchased for resale on the face of each invoice.

Attention is also directed to the fact that the main canteen is now physically operated by two inmates who receive \$20.00 and \$10.00 per month respectively. A branch canteen which was recently opened at the farm dormitory is also managed by an inmate who is paid \$10.00 per month from the canteen profits.

It was also noted that a soft drink vending machine is being rented from a concern. The monthly rental charges are being charged to canteen operating expenses together with the cost of the soft drinks purchased during that month and the machine proceeds are credited to commissions. It is advised that future purchases of this item should be charged to the inventory account and that all machine receipts be added to sales of the canteen.

Industries - Unfilled and Incomplete Sales Orders: As of the date of the current audit, there were 135 unfilled orders, some of which dated back to August 1950. The reason given for this large number was "inexperienced personnel and turnover of available inmates". It was further noted that many orders have been canceled because of

inability to complete.

Industries - Capital Expenditures: It was noted that as of January 31, 1953, machinery and equipment which had been purchased at a cost of \$85,272.63 had not yet been entered in the Machinery and Equipment account in the general ledger, nor had any depreciation been charged on it.

This machinery was purchased from three separate accounts and was provided by appropriation from the General Fund and by transfers from the State Prison Colony Industries Fund.

Unless depreciation is taken on these items the industry profits will be obviously overstated.

Industries - Heat Light and Power: The previous audit report suggested that the basis for distributing the charges for heat, light and power be reviewed so that the various industries would then bear their proper share of these costs. It was noted however that a representative of the Department of Correction reviewed the present situation and advised that the present rates were proper. It is again, however, suggested that this matter be surveyed by the Commission on Administration and Finance.

Industries - Auto Repair: It was noted that the Auto Repair Industry was abandoned during the period under audit when a requisition for a permanent instructor was canceled by a letter dated November 20, 1952 from the Division of Personnel.

Industries - Processing System: It was again noted that the Industries do not have a control account for goods in process in its general ledger. Inasmuch as there is approximately 40,000 lbs. of waste material with an estimated value of \$20,000.00 on hand, it is suggested that the Comptroller's Bureau be requested to provide means for proper control of this and comparable items.

Industries - Articles Sold for Less than Cost: A comparison of the unit costs with selling prices as per the Industries' catalogue was made of certain articles which were carried in the finished goods ledger for one month during the audit period. Of 49 items examined 28 were found to have been sold at less than their book cost. Among the items noted were the following:

| <u>Item</u> | <u>Unit Cost</u> | <u>Unit Selling Price</u> |
|-----------------------|------------------|---------------------------|
| #25 Blanket | \$ 8 06 | \$ 5 90 |
| #300 Blanket | 10 75 | 5 35 |
| #500 Blanket | 10 17 | 5 50 |
| #690 Blanket | 18 00 | 9 00 |
| #104 Shirting Regular | 2 97 | 73 |
| Ticking | 2 21 | 85 |
| #6 Wardrobe | 38 53 | 35 00 |
| #35 Desk 50 X 32 | 58 38 | 50 00 |
| #65 Table | 30 97 | 25 00 |

Losses may probably be attributed to a low rate of production and consequent heavy individual overhead loads.

NEW BEDFORD TEXTILE INSTITUTE

REPORT NO. 53-83

Tuition: In this connection the previous audit report stated:

"Because of the fact that there is both a day and an evening division at this Institute, it is quite impossible to compute the exact per capita cost of the day division. Inasmuch as it is understood that per capita cost of 'Day Students' is substantially more than \$400.00 a year, it is suggested that consideration be given to increasing the annual tuition charge of non-resident students so that they at least will pay amounts comparable with costs. At present the tuition fee for a non-resident student is \$250.00 per school year."

It was learned that after they had contacted the Bradford Durfee Technical Institute and the Lowell Textile Institute, regarding this matter, the Board of Trustees of this

Institute voted on December 8, 1952 not to increase tuition rates at the present time.

Edgar and Emily Hesslein Scholarship Fund: In accordance with a suggestion in the previous audit report the cash balance in this fund was transferred to a bank paying 2 1/2% interest. The former depository paid only 1% on balances on deposit.

BOSTON STATE HOSPITAL

REPORT NO. 53-85

Rehabilitation Pilot Study Fund: It was noted that as of June 30, 1952 the Rehabilitation Pilot Study Fund bank account was closed and the balance of \$7,510.32 was transferred to the Treasurer and Receiver-General where it was credited to the account of this institution to be used for a proposed pilot study of rehabilitation and rehabilitation personnel.

Federal Grants - Public Health Service: On October 5, 1951 a grant of \$2,000.00 was received from the United States Public Health Service to pay the salary of a trainee in Clinical Psychology for the period from November 1, 1951 to October 31, 1952. The unexpended balance of \$1,166.70 as of the date of the previous audit was entirely expended during the current audit period.

Rents - Non-Employees: It was noted that the suggestion in the previous audit report that prior approval from the Department of Mental Health be obtained for non-employees who plan to occupy rooms was complied with.

Multiple Sclerosis Research Fund: In this connection the previous audit report stated as follows:

"In connection with the examination of the expenditures from this Fund, it was noted that one physician was overpaid \$333.33 and another underpaid \$333.33 as the result of clerical errors made during the months of May, June, July and August of 1951.

"It was noted that several attempts were made to recover the overpayment. The matter was finally turned over to the Attorney General for collection on February 26, 1952. It is understood that any money recovered will be turned over to the underpaid doctor who apparently had not yet filed a claim for it."

It was learned that to date no adjustment has been made between these two physicians of the amount involved.

Briggs Clinic Fees: The previous audit report suggested in connection with these fees that proper accounting records be installed and that the cash book appeared to be the only accounting record.

Under date of February 24, 1953 the Department of Mental Health issued a directive relative to the accounting procedure and financial controls to be followed in the handling of fees received at out-patient clinics. The suggested routines were put into effect immediately and as a result adequate controls are now maintained.

It was further noted that the acting clinic cashier was bonded in the amount of \$1,000.00, effective March 1, 1953.

Patients' Property: On the date of this audit there was on hand approximately \$25,000.00 in savings banks, bonds, checks, money orders, etc., which was being held as patients' property. Included in this amount were checks totaling \$1,578.15. It is suggested that possibly more concentrated efforts might be made to have the checks cashed and credited to the respective patients' personal accounts so that they might enjoy the use of the funds.

Materials and Supplies: The test inventory of materials and supplies taken in connection with this audit on March 18, 1953 indicated total shortages of \$104.52 and overages of only \$5.47. Stock ledger adjustments made during the audit period totaled \$3,835.66 and of this amount \$3,793.18 represented overages and \$42.48 represented shortages. Adjustments were found necessary because of the usual reasons, such as, clerical errors, spoilage, shrinkage, etc.

Control of House and Room Rents: Attention is directed to the fact that the records pertaining to houses and rooms available for rent are inadequate for audit control purposes. It is suggested that the present routines be reviewed, and any changes which will improve the control situation be put into effect forthwith.

STATE PRISON

REPORT NO. 53-86

Maintenance Stores: On March 30, 1953, a test inventory was taken of 77 items in the storeroom with a total book value of \$9,660.24. Variances were noted in 33 items and indicated aggregate shortages of \$265.31 and aggregate overages of \$117.33.

During this period it was noted that 77 inventory adjustments had been made, of which 25 were necessary on items other than food. This situation would indicate a poorer condition than was noted at the time of the previous audit, and it is suggested that closer supervision over the requisition figures and postings to the stock ledgers will result in a substantial improvement.

Surety Bonds: It was noted that the head clerk under the Maintenance Section and the senior bookkeeper in the Industries Section, both of whom handle cash, are not bonded. In this connection it was noted that a letter had been sent to the Commissioner of Correction dated October 2, 1952 requesting authority to obtain the necessary coverage. To March 30, 1953 no action had been taken on the matter.

It is, therefore, again suggested that steps be taken to include these two employees with those that are presently bonded.

Inmates per Capita Cost: Based on the average inmate population for the fiscal year ended June 30, 1952, the gross weekly per capita cost per inmate was computed at \$28.75, an increase of \$2.67 over the previous fiscal year.

Industry Showing Operating Loss: It was noted that the net operating loss for the 1951 fiscal year in the Underwear Department totaled \$7,405.28 as compared with a loss of \$10,551.12 during the previous year. It was explained that this loss was occasioned by low production because an insufficient number of inmates had been assigned to operate the machinery in this industry.

In further connection with this industry it was noted for the eight month period ending February 28, 1953 the loss for this department was \$12,851.00 as compared with \$430.55 for the comparable period in the previous fiscal year. Sales for the current period had decreased approximately \$8,200.00, and the cost of sales had increased about \$4,000.00. It is understood that a part of the indicated loss for the current period was due to damage of merchandise during the inmate disturbance on July 22, 1952.

As a matter of information it is maintained that the estimated loss and damage in the disturbance indicated was \$8,000.00 for needles, yarn, and cloth, and \$5,204.00 for machinery and equipment.

In order to make a complete appraisal of this industry, it is suggested that a detailed physical inventory be taken in this department as of June 30, 1953.

Industries - Heat, Light and Power: The present method of establishing the charges made by Maintenance for heat, light and power to Industries has been the subject of discussion in the past several audit reports. In this connection the Supervisor of Industries has stated that when the new State Prison at Norfolk is completed, provision will be made to properly identify and allocate these charges directly to each industry.

Industries - Adjustments of Inventories: Previous audit reports have recommended that all adjustments of raw materials and finished goods, should be entered in the general ledger control accounts as separate entries and not as additions to purchases or issues. As this suggestion has not been adopted, attention is again directed to it.

Industries - Selling Prices Less than Cost: A test comparison of cost and selling prices indicates that in certain items of underwear the selling price was less than the item's cost as indicated by the records. In this connection it naturally follows that increased production would reduce unit costs.

Unfilled and Incomplete Sales Orders: A review of the unfilled orders on hand was made and it would appear that the quantities indicated were reasonable.

Catalogue of Prices: It was noted that the Department of Correction issued in September 1951 a catalogue of Articles and Materials produced at its various penal institutions.

Scrap Metal Disposal: In accordance with instructions received from the Executive Department, and the Commissioner of the Department, 128,005 pounds of scrap metal was turned over to the Department of Public Works. In this connection the letter from the Commissioner of Correction included the following statement:

" . . . and arrangements are being made so that the proceeds will be given to the institution that delivers the junk . . . "

To the date of the audit, March 30, 1953, this institution has not been paid for the scrap metal turned over to the Department of Public Works, and it is further understood that the receipts indicated have been credited to the Highway Fund in the Department of Public Works.

Inmates' Personal Funds - Cash Deposits: It was determined to be impossible to check respective bank deposits to particular cash book receipts because the cash received in currency is accumulated and deposited in round amounts. In this connection it was noted that a total of \$2,075.00 of such currency was on hand as of the audit date. This practice is apparently necessary so that their cash may be returned to inmates when leaving the institution on parole or release. Inasmuch as the policy of accumulating cash is a dangerous one it is suggested that other arrangements be made for the return of cash to inmates, and that all currency be deposited as received within a reasonable period.

Inmates' Personal Funds - Cash: It was noted that an overpayment of \$5.00 had been made to a released inmate. It is suggested that steps be taken to collect this item. It was further noted that \$5.00 was received in an envelope addressed to an individual who could not be identified as having been an inmate at this, or any other State correctional institution. The envelope had no return address nor any notation which might possibly have been used for identification purposes. The amount is still being carried as a miscellaneous receipt within the personal funds balance.

Canteen - Loss in July 1952: A physical inventory of canteen merchandise was taken July 24, 1952, and as a result it was learned that from July 1, 1952 to that date a loss of \$386.97 had developed. It was presumed that the greater part of this variance was occasioned by the confiscation or destruction of merchandise during the inmate disturbance of July 22, 1952.

Canteen Tickets Destroyed: The records indicate that canteen tickets delivered there just prior to the disturbance of July 22, 1952 were as follows:

| | |
|--|-----------------|
| Nos. 41649 to 41705, inclusive, 57 at \$.50 | \$ 28 50 |
| Nos. 20758 to 20798, inclusive, 41 at 5.00 | <u>205 00</u> |
| | <u>\$233 50</u> |

Although the tickets were recovered, they were soiled and partly damaged, therefore replacement tickets were issued. The recovered tickets were on hand in the maintenance office, and with the consent of institution authorities were destroyed under the supervision of a representative of the Department of the State Auditor.

Canteen Tickets - Certain Unpunched Balances: A verification of the unpunched balances as represented on inmates' half tickets was made for the purpose of comparison with the balances as shown by the comparable half tickets kept in the canteen files. In this connection it was noted that certain tickets were not turned in for verification by inmates because they contended there was no unpunched balance. In these instances the canteen tickets totaling \$8.09 were transferred to the maintenance office. Unpunched half tickets of inmates temporarily transferred and totaling \$8.74 remain in the ticket file at the canteen. Unpunched tickets originally issued to inmates now released were also transferred to the maintenance office.

Canteen Fund - Benefit Payments: The expenditures for the benefit of inmates were analyzed for the audit period as follows:

| | | |
|--|----------|-------------------|
| Moving Pictures: | | |
| Operation, Repairs, Film and Related Items | | \$ 362 00 |
| Musical Instruments and Supplies | | 24 74 |
| Holiday Items: | | |
| Ice Cream | \$705 60 | |
| Cake, Pastry, etc. | 571 68 | 1,277 28 |
| Sports Equipment | | 51 61 |
| Periodicals for Library | | 356 70 |
| Electrical and Radio Supplies and Repairs | | 145 04 |
| Miscellaneous Expenditures | | 43 89 |
| | | <u>\$2,261 26</u> |

SOLDIERS' HOME IN HOLYOKE

REPORT NO. 53-87

Petty Cash Account: This account was established during the current audit period. At the time of the receipt of the original advance from the State Treasurer, a separate bank account was opened to be used specifically for these purposes. None of the cash received was recorded in the State cash book, nor were any of the disbursements entered in this folio. Monthly return of advance schedules were not prepared and forwarded to the Comptroller's Bureau to account for these funds. In reconciling this fund on date of audit an overage of \$2.45 was established. This item should be handled as miscellaneous income.

It is therefore recommended that entries be made in the State cash book to record the transactions in this fund since its inception, and that in the future all transactions should be recorded as they occur. Return of advance forms should also be prepared for those in arrears and current schedules should be forwarded to the Comptroller as required.

In this connection it was noted that payments totaling \$39.25 for two advertisements in medical journals were made during the audit period.

Premium for Treasurer's Bond Not Paid: It was noted that an invoice for the renewal of the bond of the treasurer of this institution dated December 30, 1952 had not been paid on date of audit. This matter was called to the treasurer's attention who indicated that he would process it for payment immediately. It was also understood that a "position" type bond recommended in the previous audit report for other employees would be obtained.

Refunds on Personal Telephone Calls: Currency representing payments on personal telephone calls was counted on date of audit. This included cash collected from April 1952 to February 1953 and not entered in the cash book, as no refunds had ever been turned over to the State Treasurer. An index card system, prepared from the lists furnished by the telephone operator was used to reconcile the cash on hand and it was noted that billings totaled \$71.84, and of this amount \$38.44 had been collected leaving a balance outstanding of \$33.40. It was also noted that the cash on hand exceeded the payments recorded on the cards by \$.90.

It is recommended that all cash collections be entered in the cash book and sent to the State Treasurer immediately. Subsequent collections of this nature should be currently entered and forwarded to the State Treasurer.

Pay Roll Bank Account Not Reconciled: All pay roll disbursements for this institution were paid by the State Treasurer until June 30, 1952. As of July 1, 1952 a pay roll bank account was opened by the institution and disbursements have been made from it since that date. This bank account, however, has not been reconciled since it was started. While this examination was in progress a representative of the Comptroller's Bureau visited the institution and instructed the treasurer in the procedure of reconciling pay roll bank accounts.

It is hoped that these reconciliations will be brought up to date and that henceforth they will be made promptly at the end of each month.

Unpaid Printing Bill - Dedication of Home: In connection with the dedication of this Home in April 1952 sundry expenses totaling \$3,806.55 were incurred and were paid

from its maintenance appropriation. Two printing bills remained unpaid as follows:

| | | |
|----------------|----------------------------------|------------|
| Company | 10,000 programs @ \$230.00 per M | \$2,300 00 |
| The Print | Invitations and envelopes | 308 26 |

In connection with the foregoing, it was learned that advertising space had been sold in the program and \$415.00 was received. This amount was deposited in the Board of Trustees Fund. From these receipts the bill of the latter firm was paid in full and a payment on account in the amount of \$106.74 was made to the other creditor, which consumed the \$415.00 received.

It is understood that this entire matter is now being handled personally by the Chairman of the Board of Trustees together with the former Superintendent of this institution.

Patients' Fund - Cash: It was noted that there was an overage of \$129.81 in this account. The trial balance of the patients' individual ledger cards further indicated that it varied from the cash book balance in the amount of \$99.96.

It is suggested that all transactions in this account be reviewed so that reconciliations between the existing records will be accomplished. When this is completed steps should be taken to adjust the balance of the cash book and the ledger cards to the actual cash balance.

Attention is also called to the large amount of cash in the office in this fund which on the date of audit totaled \$3,566.78. As a safety precaution it is suggested that currency balances on hand should always be maintained at a minimum.

Canteen Fund: Attention is called to the fact that on the date of audit, eight checks totaling \$139.32 were found on hand representing commissions on vending machines dated from October 9, 1952 to March 2, 1953. Six of these checks bore the endorsement of the former Superintendent of the Home. The checks should be immediately deposited.

It was also noted that a canteen was opened while this audit was in progress which is being conducted by a private individual. The Superintendent indicated that financial arrangements between the Home and the operator of the Canteen have not yet been formalized.

STATE PRISON COLONY AT NORFOLK

REPORT NO. 53-88

Inmates' No. 1 Account: In connection with balancing the cash in this account a shortage of \$391.15 was noted. In the opinion of the institution treasurer this difference was probably due to misplacing certain so-called Inmates' Charge Slips which had not been recorded on the cash book and was the accumulation of many differences over a period of approximately fourteen months.

The records were exhaustively checked by the institution head clerk and the assistant treasurer and no bookkeeping errors were noted. These records were likewise comprehensively checked by a representative of the Auditor's office.

It is understood that an amount equal to the shortage was paid into this account and the matter was closed.

Industries - Adjustments: The total inventory adjustments showed a substantial decrease for the 1952 year. The adjustments totaled \$1,140.21 in 1952 as compared with \$3,614.09 in 1951.

Industries - Profit from Operations: Although the sales for the 1952 fiscal year showed an increase over 1951 of \$23,530.91, the profit was \$8,900.92 less or \$102,767.34 as compared with \$111,668.26 for the 1951 fiscal year. This decrease in the net profit was largely due to a substantial increase in the cost of personal services. Substantial gains in profits were reported by the Mattress, Tobacco and Shoe Shops over 1951, whereas, the Clothing, Concrete and Metal Shops showed decreases in profits for the same period.

The percentage of the net profit in 1952 was 18.08% as compared with 20.49% in 1951.

Industries - Inmates' Compensation Fund: The balance in this fund as of the date of the current audit was \$29,357.86. Payments to inmates, however, will not begin until the fund totals \$45,000.00.

MASSACHUSETTS AERONAUTICS COMMISSION

REPORT NO. 53-89

Reimbursement to Cities and Towns for Airport Construction Projects: During the current audit period funds were expended from special appropriations for construction work at various municipal airports within the Commonwealth. The Federal Government, the Commonwealth and the various municipalities concerned, participated in the program for airport construction projects in the approximate ratio of 50%, 25% and 25% respectively.

All contracts awarded under this program are approved by the Massachusetts Aeronautics Commission. Under provisions of appropriating acts for the 1950 and subsequent fiscal years the approval of contracts by the Massachusetts Public Buildings Commission is no longer required. The progress of the work is checked by engineers of the Massachusetts Aeronautics Commission.

Invoices are presented to the Massachusetts Aeronautics Commission by the municipalities for reimbursement from the Commonwealth of 25% of construction costs which is the maximum reimbursement allowed by General Laws, Chapter 90, Section 39F.

Checks are sent by the Federal Government payable to the Massachusetts Aeronautics Commission as agent for the municipalities concerned.

The Commission deposits these checks in a separate bank account and almost immediately draws checks on this account payable to the several municipal airports where work is being performed under the program.

Apparently the amounts awarded by the Federal Government under this program are not controlled by the Commonwealth.

The following schedule indicates the amounts of Federal and State Aid paid to cities and towns for airport construction from April 4, 1952 to March 23, 1953:

| City or Town | State Aid | Federal Aid | Total |
|--------------|---------------------|---------------------|---------------------|
| Orange | \$ 7,891 27 | \$ 15,782 49 | \$ 23,673 76 |
| Worcester | 80,217 99 | 171,805 50 | 252,023 49 |
| New Bedford | 24,161 20 | 10,869 54 | 35,030 74 |
| Pittsfield | 7,115 64 | 52,182 94 | 59,298 58 |
| Lawrence | 6,347 03 | 12,613 39 | 18,960 42 |
| Westfield | 8,177 98 | - | 8,177 98 |
| Fall River | 16,965 56 | 44,596 04 | 61,561 60 |
| Nantucket | 17,992 46 | 4,374 69 | 22,367 15 |
| North Adams | 3,174 46 | 13,702 40 | 16,876 86 |
| Norwood | 4,308 03 | - | 4,308 03 |
| Hyannis | - | 30,630 93 | 30,630 93 |
| | <u>\$176,351 62</u> | <u>\$356,557 92</u> | <u>\$532,909 54</u> |

Registration of Federal Certificates by Resident Airmen Owners and Operators: Section 49 of Chapter 90 of the General Laws provides that all resident airmen, owners and operators of all aircraft, shall register the Federal certificates of said airmen and of said aircraft with the Commission. It was noted that no fees are charged by the Commission for such registrations.

MEDFIELD STATE HOSPITAL

REPORT NO. 53-90

Shortage of Cash: This audit was initiated on April 6, 1953. In this connection the balancing of State cash on that date indicated a shortage of \$7,830.00 and was comprised of the following:

| | | |
|---|-------------------|-------------------|
| Shortage a/c Items Recorded in Cash Book: | | |
| Balance per Cash Book | \$148,518 00 | |
| Cash per Count | <u>140,918 00</u> | \$7,600 00 |
| Shortage a/c Excess of Meal Tickets Sold | | |
| Over Cash Recorded in Cash Book | | 230 00 |
| Total Shortage | | <u>\$7,830 00</u> |

In order to ascertain the causes and reasons for the aforementioned shortage, an intensive examination was made of all transactions with income and pay roll together with their particular application insofar as the institution bank deposits were concerned.

In checking the bank deposits it was noted that the records as of April 6, 1953 indicated seven deposits ostensibly in transit. Verification with the depository bank established, however, that these deposits were actually received by the bank on dates which

varied considerably from the dates recorded in the check book as is shown by the following:

| <u>Date Deposited per Check Book Entry</u> | <u>Date Deposited per Subsequent Bank Statements</u> | <u>Amount</u> |
|--|--|-------------------|
| Feb. 20, 1953 | Apr. 6, 1953 | \$ 691 18 |
| Mar. 20, 1953 | Apr. 27, 1953 | 3,590 21 |
| Mar. 20, 1953 | Apr. 27, 1953 | 451 40 |
| Mar. 31, 1953 | Apr. 6, 1953 | 512 20 |
| Mar. 31, 1953 | Apr. 27, 1953 | 628 54 |
| Apr. 2, 1953 | May 7, 1953 | 1,642 23 |
| Apr. 2, 1953 | May 7, 1953 | 1,487 62 |
| Total | | <u>\$9,003 38</u> |

The foregoing, of course, probably indicates that the aforementioned amounts were not available for deposit on the dates represented, and therefore, it was necessary to wait until subsequent cash receipts presented themselves before the deposits could actually be made.

The cash in the Patients' and Canteen accounts was balanced on the same date in an effort to verify that the several cash accounts were not confused and it was determined that these accounts were in balance.

An attempt was made to verify by correspondence all balances apparently owing for patients' board. In this connection 387 verification notices were mailed with the following results:

| | |
|--|------------|
| Notices Returned Indicating Balances Correct | 191 |
| Returned Undelivered by Post Office and No Better Addresses Available from Institution or Department Records | 9 |
| Returned Indicating Vagueness or Doubt as to Correctness of Balances | 7 |
| Unanswered | 180 |
| Total | <u>387</u> |

All questioned replies were investigated and were finally satisfactorily explained.

The foregoing facts were immediately brought to the attention of the Department of Mental Health for disposition.

Unrecorded Cash - Industrial Accident Refunds: In connection with counting the office cash it was noted that \$5,136.88 consisting of cash and checks dated as far back as May 8, 1952 were in the institution's vault although no entries had been made in the cash book to record their receipt. This money ostensibly represented refunds from employees who received compensation from the Industrial Accident Division who are required to make a return of it to the institution treasurer. A recredit is made to the employees' sick time as they represent pay roll overpayments.

An audit of all these cases, totaling 57, which developed since July 21, 1947 was made as follows for the purpose of determining that refunds from employees which originated from this source were accounted for:

1. All accident cases in the institution files were examined and those cases which occurred during this period and were approved by the Industrial Accident Board were listed.
2. These cases were checked to pay roll records. Employees carried as being on sick leave while collecting compensation were noted and the amount of refunds due was established.
3. A list of compensation payments scheduled in these instances was prepared from the Industrial Accident Division records. Refunds received as recorded in the institution cash book were listed and compared with amounts established as due from employees.

In connection with the foregoing only three cases were noted in which the cash refunded by the employee was less than the amount that should have been returned. Two of these were current cases and the amounts due cover periods of two and three weeks respectively. This period would appear to coincide with the time lag necessary for processing schedules by the Industrial Accident Division. The third case represents an underpayment and is being verified by correspondence.

Prior to the completion of this audit the total cash represented was properly entered in the cash book and was deposited.

Method of Handling Industrial Accident Cases: At present Industrial Accident cases are handled at this institution as follows:

If the employee who has been injured has accumulated sick time he is allowed to remain on the pay roll on sick leave and continues to receive his regular salary until the sick time is exhausted. After the institution is advised by the Industrial Accident Division that the employee's application for compensation has been approved, the institution treasurer periodically submits invoices to that Division for compensation payments to be made directly to the employee. The employee later refunds to the institution the amount of such compensation applicable to the period during which he drew his entire salary while on sick time. This refund is subsequently recredited to the employee's sick time.

This method of handling cases does not strictly comply with the procedures as outlined in the Comptroller's "Pay Roll Reference Manual" which states as follows in this regard:

"The Employee may receive the difference between the amount of his regular Salary or Wages and the amount of any disability compensation until any Sick Leave allowance which the Employee has to his credit has been used. The portion of the regular Salary or Wages paid by the Spending Agency during the enforced absence of such an Employee should be charged to Sick Leave credit in the same ratio which the amount of the payment bears to the regular Salary or Wages of the Employee. For example: an Employee earning \$45.00 per week is injured and receives \$30.00 per week as Workmen's Compensation. The Spending Agency pays the Employee the difference of \$15.00 per week provided that the Employee has sufficient Sick Leave time to his credit. The payment of \$15.00 represents one-third of the Employee's regular Salary or Wages. The Spending Agency, therefore, should charge one-third of a week against the Employee's accrued Sick Leave for each week that such payment is made."

It will be noted that these instructions fail to take into consideration the fact that a period of from one to six months may elapse before the Industrial Accident Division approves the employee's application for compensation. Such a delay before approval, particularly in instances of lengthy illness, might conceivably cause considerable financial inconvenience to the employee.

It must, however, be acknowledged that the method used at this institution, even though it does not follow standard procedures, has a deserving quality in that the employee receives his salary as long as sick leave is available.

It is therefore suggested that the Comptroller's Bureau review their instructions in the "Pay Roll Reference Manual" on the handling of Industrial Accident Cases, and make whatever revisions it deems appropriate.

In this connection it should also be understood that in these cases there is no degree of certainty that the Industrial Accident Division will ultimately approve all applications for compensation.

Unrecorded Cash - Contractors' Deposits: It was noted that there were three contracts in effect which required deposit of cash or a certified check in specified amounts as performance bonds. In this connection three items of cash were found in the institution's vault for which no record of receipt appeared in the cash book. These items follow:

| <u>Contract</u> | <u>Form</u> | <u>Amount</u> |
|---------------------------|-------------------|---------------|
| Sale of Surplus Livestock | Cash | \$300 00 |
| Sale of Waste Paper | Uncertified Check | 50 00 |

Sale of Cinders

Certified Check

\$100 00

\$450 00

It is suggested that future contracts of this nature be so written that the required bid bond be presented only in the form of a certified check. It is further suggested that the deposits received from successful bidders be recorded on the institution cash book.

Outstanding Checks: It is suggested that steps be taken to stop payment on the following checks which have been outstanding for a considerable period of time:

| <u>Account</u> | <u>No. of Checks</u> | <u>Total</u> |
|----------------|----------------------|--------------|
| State | 2 | \$ 2 28 |
| Patients | 13 | 77 95 |
| Escrow | 5 | 24 57 |

The proceeds should, of course, be disposed of in accordance with the directives as appearing in the Comptroller's Bureau Accounting Manual.

Patients' Funds: In balancing the Patients' Fund cash, it was noted that there were three checks on hand belonging to patients which were not included with the Patients' Fund cash balance. Two of them in the amounts of \$6,086.54 and \$5,000.00, respectively, and both dated September 25, 1950 are drawn on the Manufacturers Trust Company, Brooklyn, New York, in favor of a non-paying patient who was admitted to the Hospital September 30, 1950. The third check, in the amount of \$1,549.44 is drawn on the Quincy Trust Company, Quincy, and is dated in April 1953 in favor of a patient admitted during that month. All three checks are unendorsed.

It was not known whether these checks had any actual value. Since the proceeds of these checks might possibly be applied toward the payment of board, it is suggested that the Department of Mental Health take steps to ascertain their worth and possibly arrange collection on behalf of the patients.

WESTFIELD STATE SANATORIUM

REPORT NO. 53-91

Materials and Supplies: The test inventory of Materials and Supplies taken on March 30, 1953, in connection with this audit, indicated aggregate shortages of \$39.91 and aggregate overages of \$43.35. The total adjustments made during the audit period totaled \$5,248.82. Of this latter amount \$1,069.33 represented overages, \$1,324.51 shortages, \$1,594.55 a fire loss, and \$1,260.43 suspense adjustments. It was indicated that the overage and shortage adjustments were necessitated by clerical errors, spoilage and shrinkage.

Bonding: It was noted that the senior bookkeeper in the office of the treasurer, who is handling State funds, is not bonded. It is recommended that this employee be bonded.

RUTLAND STATE SANATORIUM

REPORT NO. 53-92

Increase in Per Capita Cost: Attention is called to the increased net weekly per capita cost for the 1952 fiscal year as compared with the 1951 fiscal year. In this connection the following is shown:

| <u>Fiscal Year</u> | <u>Expenditures</u> | <u>Receipts</u> | <u>Excess of Expenditures over Receipts</u> | <u>Net Weekly Per Capita Cost</u> |
|--------------------|---------------------|-----------------|---|-----------------------------------|
| 1951 | \$ 895,755 64 | \$217,900 13 | \$677,855 51 | \$54 54 |
| 1952 | 1,011,564 12 | 117,173 37 | 894,390 75 | 81 90 |

Attention is particularly called to the decline in income especially in the receipts from the board and treatment of patients which decreased from \$155,438.41 in 1951 to \$72,537.28 in 1952. This falling off of income may be attributed principally to the fact that the number of unsettled cases has substantially increased.

City Not Billed for a Case with Settlement: It was noted that in one instance, no charge had been as yet set up in the Accounts Receivable ledger for a patient at this

institution for the period from January 4, 1951 to June 30, 1951. The individual concerned who has an acknowledged legal settlement in Greenfield, is currently employed as a physician at this institution. Attention is also called to the fact that on three other admissions to this institution beginning in 1944 and ending in 1947, this patient was classified in the "Private" category and all charges were so made and paid.

For some unknown reason this item was overlooked by institution personnel until December 1, 1952, at which time an invoice was submitted directly to the former patient, and inasmuch as payment was not received a further reminder was sent to him on February 1, 1953. Again for some unexplainable reason no bookkeeping charge was set up on the institution's records - nor has the City of Greenfield ever been advised of this obligation.

This matter is obviously an unusual one, and it is suggested that immediate steps be taken to insure complete satisfaction of the indebtedness. It would appear that this should involve no particular legal difficulties.

Disposition of Deceased Patients' Fund: On date of audit funds of deceased patients totaling \$109.26 were on hand. This amount represented funds of two patients who died on January 30, 1952 and April 25, 1952 respectively. Copies of letters requesting instruction for the disposition of this money were noted in the files of the treasurer's office to the Director of the Division of Tuberculosis and Sanatoria, and to the Business Agent of the Department of Public Health. To date no indication has been received from the Department of Public Health relative to the procedure to be followed in closing out this matter.

Employee Not Bonded: In connection with verifying the bonds of employees whose duties necessitate the handling of cash it was noted that a junior clerk in the office of the institution treasurer, who falls into this category, was not bonded on the date of audit. It is suggested that the bonding of this employee be given consideration.

Delay in Determination of Patients' Settlements: It was noted that no so-called settlement lists had been prepared for the months of April 1952 to August 1952 inclusive by the Settlement Division in the Department of Public Welfare. This matter was brought to the attention of the Director of the Division of Tuberculosis and Sanatoria of the Department of Public Health by the Superintendent of this institution on August 1, 1952, and determination of settlements were again resumed as lists became regularly available beginning in September 1952 and have continued on a monthly basis. Because of this no billings were currently made for those patients admitted during that period. This fact, of course, affected the proper distribution of billings between the 1952 and 1953 fiscal years and created incorrect net per capita costs for the years concerned.

Accounts Not Found in Attorney General's Office: It was noted in one instance that the institution records indicated an account as being with the Attorney General for collection, despite the fact that the records of that department did not appear to include it. When this matter was called to the attention of the institution treasurer it was again submitted to the Attorney General under date of April 14, 1953.

Billing of Alien Patients: At various times during the past several years bills have been made out for alien patients and rendered to them for board and treatment at this institution. As cities and towns do not ordinarily pay such charges the only apparent recourse is to attempt to collect from the patient on a private basis. Apparently the institution was reluctant to set up these charges in the Accounts Receivable ledger since it was assumed that the ability of these particular patients to pay was not considered good, and therefore, there would be created on the records of the institution a considerable number of accounts with no actual value which would ultimately have to be submitted to the Attorney General for collection or disposition. Therefore, the charges were not set up in the Accounts Receivable records until such time as a payment was made on account. As of April 16, 1953 a tabulation of all bills which had been rendered in this connection was compiled from the files of the treasurer's office as follows:

| | |
|---|-------------|
| Entered in the Accounts Receivable ledger and included in the control account | \$15,393 00 |
| Entered in individual patients account in the Accounts Receivable ledger, not included in the control account | 4,128 00 |

| | |
|---|--------------------|
| Not entered in either the Accounts Receivable ledger in individual patients account, or in the control account | \$ 8,616 00 |
| | <u>\$28,137 00</u> |

In further connection with this matter it was noted that of the \$15,393.00 which had been entered only \$5,420.00 had been received to date.

Admittance Register - Date of Discharge Not Posted: It was noted in certain instances that entries had not been made in the register for patients who had been discharged. It is recommended that greater care be exercised in posting to this record as it is an important means of checking the income from patients' board, etc.

Quarters Register: It was also noted in certain instances that amounts deducted from the weekly salary of employees varied from the rates as appearing on this register. In these cases the rates on the register were greater than the amounts actually deducted. It was also noted in several cases that dates when employees had vacated accommodations had not been inserted in the register. One instance was noted where an employee was charged weekly for a room without a card having been set up for him in this register. It is suggested that the treasurer review this register and make any necessary adjustments so that all information necessary will appear therein. Where it is determined that deductions were not sufficient, additional correcting charges should be made.

Land Conveyed: It was noted that a parcel of land, owned by this institution was conveyed during the audit period under direct authority of Chapter 581 of the Acts of 1951. This land which involved approximately 17.25 acres was sold to Frederick J. Curtis of Holden for \$200.00.

Old Accounts Receivable - Patients' Board and Treatment: Attention is called to the fact that there were many outstanding accounts on date of audit on which no payments had been recently received. It is recommended that all outstanding accounts on which there has been no activity for one year or more be turned over to the Attorney General for disposition.

STATE TEACHERS COLLEGE AT SALEM

REPORT NO. 53-93

Amanda Parsons Fund: Previous audit reports have commented on the fact that the principal of this small fund is not available for expenditure. This makes this fund of negligible practical value because it is earning no interest at the present time. It is again recommended that this fund be invested so that some income may be derived.

Restaurant Account: Because students operate the accounts of this activity it is recommended that a simpler form of cash book be installed.

Book Store and Co-operative Society: The accounts of these two activities of the student body were not examined in connection with the current examination.

STATE TEACHERS COLLEGE AT NORTH ADAMS

REPORT NO. 53-94

Accounts Receivable: It was noted that two semester fees were still outstanding for the school years of 1948 and 1951. It is recommended that these accounts in the respective amounts of \$20.00 and \$37.50 be sent to the Attorney General for collection or disposition.

It was further noted that necessary adjustments in the detailed accounts receivable accounts were made in conformance with recommendations in the previous audit report.

Bonding: It was noted that the position of senior bookkeeper at this college is not bonded. Arrangements should be made forthwith to have this employee bonded.

Meal Tickets: It was noted that this college is selling the same blue meal tickets at the rate of \$3.50 each to those employees who eat in the dining hall and only \$3.00 each to those employees who eat in the kitchen. It is recommended that different colored meal tickets be obtained to be sold to those employees who eat in the dining hall.

DIVISION OF ACCOUNTS

REPORT NO. 53-95

Advances to Employees: In accordance with a suggestion in the previous audit report the procedure outlined in the Comptroller's Manual for handling travel advances to employees is now being followed.

Cash Book: It was noted that current year's refunds and miscellaneous income which now includes prior year's refunds are not being recorded in the cash book. It is, therefore, recommended that all cash receipts regardless of their nature be recorded in the cash book when received.

Income Cash: It was noted that all income cash is transmitted to the State Treasurer with the exception of income which is derived from the certification of notes. This income is sent to Income Tax Division.

As there appears to be no reason for this method of handling this income it is recommended that receipts from all sources be deposited directly with the State Treasurer.

DIVISION OF INSURANCE

REPORT NO. 53-96

Old Outstanding Checks: It was noted that nine checks totaling \$31.00, which had been issued during the period 1938 through 1949 were still being carried as outstanding. These checks had been issued as refunds due to overpayments for licenses and examinations.

In this connection the Accounting Manual issued by the Comptroller's Bureau states as follows:

"A spending agency must stop payment on all checks (excepting those issued for salaries or wages) which have been issued payable from the Commonwealth funds and have not been cashed by the payee within one year from the date of their issue. These amounts must be paid into the State Treasury to be credited to the Unpaid Check Fund."

It is recommended that these instructions be complied with.

Return of Advance: The previous audit report indicated that advances for subsequent fiscal years had been partially used as returns of advance for the current fiscal year.

It was noted that this practice no longer prevails since travel expense vouchers are now sent in as a part of the return of advance at the end of the fiscal year without waiting for reimbursement.

Income from Licenses Issued: In connection with the reconciliation of company licenses, it was noted that several duplicate licenses failed to indicate the amounts received for them. These amounts should be plainly indicated in order to facilitate their auditing.

MASSACHUSETTS HOSPITAL SCHOOL

REPORT NO. 53-97

Delinquent Accounts Receivable: The previous audit report indicated that there was in the office of the Attorney General for collection, accounts totaling \$20,634.14. During this audit period this amount has been increased to \$25,568.92. It was noted that no collections on these accounts were effected by that agency during the audit period.

DIVISION OF EMPLOYMENT SECURITY

REPORT NO. 53-98

General: Funds for unemployment compensation payments and for administration of the State Division of Employment Security are provided for by maximum taxes of 3% assessed against pay rolls. Funds expended in Massachusetts for these purposes are provided for or offset entirely by collections from employers within this Commonwealth. All employers now pay the maximum State levy of 2.7%.

Irreducibly included in these taxes is an assessment of .3% collected by the Federal Government from employers which, while it is not segregated for this purpose, offsets the sums provided by the Federal Government to administer unemployment compensation.

Under this levy, on the basis of available statistical records, it is understood that Massachusetts employers paid approximately \$10,011,000.00 into the Federal Treasury during the 1952 fiscal year. During this period, the Commonwealth received and expended approximately \$8,226,000.00 for the administration of this Division. This amount represents 82.1% of the taxes collected from Massachusetts employers.

Veterans' Readjustment Assistance Act of 1952: The Commonwealth, through the Director of Employment Security, entered into an agreement with the United States Secretary of Labor to provide unemployment compensation to veterans as defined in the Veterans' Readjustment Assistance Act of 1952.

Veterans eligible under this Act may receive \$26.00 per week for no longer than 26 weeks. The Commonwealth is to be reimbursed by the Federal Government for these payments with the exception of veterans who are entitled to benefit payments under the State Unemployment law. In such instances the Commonwealth will be reimbursed only for that portion of the benefit payments in excess of the amounts to which they are entitled under the State Unemployment law.

Reconciliation of Pay Roll Account: The previous audit report stated that the pay roll bank account was not being reconciled regularly and that its unexpended balance was not readily determinable. It was noted that this account had been reconciled monthly during the current audit period. It is also now possible to make an analysis of the unexpended balance at any time.

Relation of Benefit Payments to Employer Contributions: In compliance with Section 14 (b), Chapter 151A of the Tercentenary Edition of the General Laws, the four lowest contribution rates were increased by .5% with a maximum of 2.7%, effective as of January 1, 1950. Effective January 1, 1951, the rates were all set at 2.7% and are still being so maintained. A statement of benefit payments together with employer contributions and interest for the four fiscal periods beginning with July 1, 1949 follow:

| Date | Employer Contributions and Interest Less Refunds | Interest Credited By U.S. Treasury | Total | Net Benefit Payments |
|-----------------------------------|---|--|-------------------------|-------------------------|
| July 1, 1949 to June 30, 1950 | \$ 49,061,832 72 | \$ 3,104,843 77 | \$ 52,166,676 49 | \$111,683,504 18 |
| July 1, 1950 to June 30, 1951 | 76,353,425 29 | 1,418,168 01 | 77,771,593 30 | 48,599,744 22 |
| July 1, 1951 to June 30, 1952 | 98,145,038 95 | 2,751,093 52 | 100,896,132 47 | 60,494,055 75 |
| July 1, 1952 to April 21, 1953 | 70,692,090 47 | 2,747,492 69 | 73,439,583 16 | 37,260,257 26 |
| | <u>\$294,252,387 43</u> | <u>\$10,021,597 99</u> | <u>\$304,273,985 42</u> | <u>\$258,037,561 41</u> |

The effect of the increased contribution rates is, of course, reflected in the foregoing schedule.

Contribution Rates: Chapter 763 of the Acts of 1951 incorporated several revisions into Chapter 151A of the Tercentenary Edition of the General Laws. A different method of determining the experience rate of employers is now in effect. This Act also calls for the creation of a "Solvency Fund".

In this connection Sections 14 L and 14 M of said Chapter 151A of the Tercentenary Edition of the General Laws follow:

"Section 14 L. The contribution rate of each employer shall be two and seven-tenths per cent of that part of his pay roll subject to this chapter, except as follows:-

- (1) Whenever, as of any computation date after nineteen fifty-one, the unemployment compensation fund available for benefits is equal to or exceeds six per cent, but is less than seven per cent, of total taxable wages as above determined, the experience rate for each employer for the ensuing calendar year shall be determined on the basis of his reserve

percentage in accordance with Schedule A.

Schedule A provides experience rates ranging from 1% to 2.7%.

(2) When the fund equals or exceeds seven per cent of total taxable wages, the director shall so declare and in the quarter immediately following the experience rate for each employer shall be determined on the basis of his reserve percentage in accordance with Schedule B for the following year and for all subsequent years as long as the unemployment compensation fund equals or exceeds five and one-half per cent of total taxable wages. If at any time the unemployment compensation fund is less than five and one-half per cent of total taxable wages, the director shall so declare and effective the quarter immediately following such declaration, the experience rate of each employer shall be two and seven-tenths per cent for the remaining quarters of the calendar year and for subsequent calendar years, until the fund reaches or exceeds six per cent of total taxable wages, at which time the director shall so declare, and effective the quarter immediately following such declaration the experience rate for each employer shall be as in Schedule A."

The rates in Schedule B range from 0.5% to 2.7%.

"Section 14 M. If, as on any computation date, the reserve percentage of the solvency account is less than one per cent, each employer, in addition to his experience rate, shall be liable to pay contributions on his taxable pay rolls for the ensuing year at the solvency rate corresponding to the reserve percentage of the solvency account shown by the following table:- provided, however, that no employer shall be required to contribute a total aggregate amount of all contributions required under this section of more than two and seven-tenths per cent of his taxable pay roll."

The solvency rate table referred to in Section M may range from .1% to 1%.

It was understood that reduced contribution rates for employers might become again available in 1954.

Attention is directed to the fact that the total taxable wages in Massachusetts for the 1952 calendar year were \$3,636,347,336.00. The fund balance would have to be \$218,180,840.16 on the computation date (September 30, 1953) in order that employer experience rates might become effective for the succeeding calendar year of 1954. On April 21, 1953 the fund balance was \$188,407,569.76.

Debit Memoranda: Quarterly wages and contribution reports as submitted by the employers are examined by the Reports Audit Division of the Contribution Department, and if it is determined that additional contributions, interest or penalties are payable to the division so called debit memoranda are issued. The amount determined to be due from each employer is then posted to the employer ledger account in the Delinquency and Collection Division.

When checks received in payment of contributions are returned by the bank as dishonored, charge vouchers are made out by the cashier's unit, and debit memoranda are correspondingly issued to the employers.

The total amount of debit memoranda is reflected in the State general ledger in the account "Contributions Receivable - Underpayments". The balance in this account on March 31, 1953 was \$1,615,533.76.

Readjustment Allowances: It was noted the Readjustment Allowance benefit disbursements were discontinued in August 1952. However, on the date of this audit, the Readjustment Allowance general ledger control account indicated a credit balance of \$23,174.00 which represents the total benefit checks which have not yet been cashed. It was also noted that this matter has been referred to the Veterans' Administration. As the liability for these payments apparently no longer exists insofar as the Commonwealth is concerned, it is suggested that the accounts for the Readjustment Allowances be discontinued.

Maintenance Expenses: A comparison of certain maintenance expenses for the four fiscal years ended June 30, 1952 follows:

| | Fiscal Year 1949 | Fiscal Year 1950 | Fiscal Year 1951 | Fiscal Year 1952 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Personal Services | \$5,221,131 60 | \$6,537,013 73 | \$6,199,605 04 | \$6,672,648 88 |
| Rent of Buildings | 344,786 15 | 366,708 09 | 464,622 02 | 527,926 86 |
| Rental of Office | | | | |
| Machinery | 165,894 16 | 185,944 99 | 194,191 80 | 181,212 84 |
| Repairs, Office Furni- ture and Fixtures | 10,560 99 | 47,433 43 | 13,223 85 | 5,953 81 |
| Purchase of Equipment | 7,821 33 | 56,584 24 | 81,260 80 | 105,796 95 |
| | <u>\$5,750,194 23</u> | <u>\$7,193,684 48</u> | <u>\$6,952,903 51</u> | <u>\$7,493,539 34</u> |

Restaurant: There is a restaurant in operation in the basement of 881 Commonwealth Avenue, Boston, which is operated by an individual not a Division employee. To date there has been no income from this source accruing to the Division which at present furnishes space, heat, light and water. In the past the Division reviewed the possibility of assessing rental charges to a predecessor concern but decided that to make such charges would work hardship on the proprietor. It is suggested that the Division review the current situation in the cafeteria to determine whether charging a rental fee would now be practical.

DEPARTMENT OF CONSERVATION

GENERAL DEPARTMENT

REPORT NO. 53-99

Pay Rolls: It was noted that since July 1, 1952 all pay rolls have been paid on a monthly basis by the State Treasurer. No advances for this purpose were necessary for the 1953 year.

Bonded Positions: At present there are only 4 employees handling cash who are bonded and several others who are not covered. It was noted that although budget requests for funds to bond employees in the recreation areas have been denied in previous years, it was learned that \$800.00 has been allowed in the 1954 budget for this purpose.

Federal Grants: Certain percentages of amounts expended for Farm Forestry Projects, Co-operative Distribution of Forest Planting Stock, and Prevention of Forest Fires are reimbursed by United States Federal Grants. It was noted that all such grants by the Federal Government had been received and properly allocated.

Parks and Recreation - Accounts Receivable: The previous audit report commented on an outstanding balance of \$85.00 due on account of a 1950 permit. It was noted that this entire balance was paid prior to the completion of this audit.

On January 22, 1953 outstanding accounts totaling \$302.40 were referred to the Attorney General for collection, and only \$5.00 had been received on them prior to the completion of this audit. Another account amounting to \$324.00 for house rent which had been billed to a tenant, now deceased, will be referred to the Attorney General for disposition in the near future.

Repairs to Standish Monument: Apparently because of dangerous conditions, the tower of the Standish Monument was not opened to the public during the 1952 season, consequently there was no income from admissions. It is anticipated that repairs will be completed in sufficient time so that the monument may be opened for a part of the 1953 season.

Marine Fisheries: The following comment appeared in the audit report of the previous year:

"Applications for Weirs, Pound Nets or Fish Traps, - construction and maintenance which require the prior approval of Local Authorities, Department of Public Works and United States Army Engineers and applications for Bed Certificate as to the sanitary condition of certain tidal waters and flats are received at this Division. The applications carry no fee even though considerable detail work by the Division is

necessary before issuance of the permits. It is suggested that consideration be given to the advisability of charging a fee for these services."

Inasmuch as no change has been effected with respect to the foregoing, attention is again directed to the matter.

Parks and Salisbury Beach Fund: On June 30, 1951 the accumulated surplus in this fund totaled \$107,274.95, and on June 30, 1952 it totaled \$129,055.57. There is no record of this account on the general books of this Department.

DIVISION OF FISHERIES AND GAME

REPORT NO. 53-100

Labor Pay Rolls: Formerly employees in the labor service were paid on the 15th and the last day of each month from advance money secured for this purpose. Effective July 1, 1952, however, this practice was discontinued and these employees were paid by the State Treasurer from a monthly pay roll with the customary "Draw" privileges. This change was made in accordance with instructions received in a letter dated June 12, 1952 from the Comptroller's Bureau.

Accounts Receivable: Previous audit reports stated that the sum of \$31.25 was due from the Town of Mashpee, as follows:

| | |
|------------------------|----------------|
| Sales of 1949 Licenses | \$25 25 |
| Sales of 1950 Licenses | 6 00 |
| Total | <u>\$31 25</u> |

It was noted that this item was turned over to the Attorney General's office for collection in September, 1950, and efforts by the Attorney General's office to locate the clerk responsible for the above licenses have been unsuccessful to date.

Control Accounts Receivable: It was noted that a Control Accounts Receivable account is not being carried in the general ledger, the reason apparently being that practically all the income is on a cash basis. It is nevertheless suggested that the Comptroller's Bureau be requested to provide such an account.

Wildlife Co-operative Research Project Contribution: A previous audit report stated:

"An amount of \$6,000.00 was appropriated to the Division for the fiscal year ended June 30, 1950, but the account was not included in the records of the Division for that year. It was learned that the Federal Government grants \$6,000.00 for this purpose and the University of Massachusetts also receives an appropriation of \$6,000.00 for this project. The records are maintained, however, at the University of Massachusetts in Amherst. It is suggested that all future appropriations for these purposes be requested by the University of Massachusetts, as this Division apparently has no control over the expenditure of these funds."

It was again noted that the situation remained the same for the fiscal year ended June 30, 1952.

Inland Fisheries and Game Fund: The previous audit report directed attention to the amount of \$17,103.18 which should have been transferred to this fund in the 1950 and 1951 years but which had been allowed to remain in the General Fund. In this connection it was noted that the transfer was properly made as of June 30, 1952. The balance in the Surplus Account of this fund on that date totaled \$523,432.42.

This fund is not reflected on the books of the Division.

Printing and Distribution of Certain Licenses: In connection with the examination of unused returned licenses by the various cities and towns it was noted that several types were being returned as complete unsold books. This situation applied generally to those printed and distributed in books of ten each. Because of the unnecessary costs involved this matter was discussed with the Director of the Division and he indicated

that he would review the practicability of reducing the number of licenses in each book from 10 to 5. In this manner the cost of printing and handling should be appreciably reduced.

STATE TEACHERS COLLEGE AT WORCESTER

REPORT NO. 53-101

Cash Overage: In the audit report of the previous year attention was called to a cash overage of \$100.54, and it was recommended that this cash be sent to the State Treasurer as miscellaneous income. Inasmuch as this overage still existed on the date of the current examination, it is again recommended that this matter be treated in accordance with the suggestions made in that audit report.

Accounts Receivable: The outstanding accounts receivable balance on date of audit totaled \$262.50, and comprised seven accounts of \$37.50 each. These accounts consisted of charges for semester fees for the 1950 - 1951 school year for veteran students. It was learned that these charges might possibly have been paid by the Veterans' Administration, as in one instance where a duplicate bill was mailed during the current audit period, a reply was received indicating that payment had been made. It is therefore recommended that these accounts be reviewed to determine whether they are actually outstanding.

It was also noted that there was an unpaid semester fee in the amount of \$37.50 during the 1951 - 1952 school year according to the accounts receivable ledger which was not included in the control account balance. In this case it was learned that the student to whom this charge is applicable withdrew during the second semester and therefore was apparently not liable for the charge. It is understood that the necessary adjusting entries will be made in the records to take care of this matter.

Income from Cafeteria: In this connection the previous audit report stated as follows:

"Although a cafeteria is operated by a private individual in the college building, no income from this source was noted on the books of the college."

It was again noted that no income from this source appears on the records of the college during the current audit period.

Income from Vending Machine: The previous audit report further stated in this regard as follows:

"There is a Coca-Cola machine located in the cafeteria of the college building. It was learned, however, that the income from it is given to the Students' Activities Fund."

Apparently this function is still being handled in this manner as no income to the Commonwealth from this source was noted during the current audit period.

INDUSTRIAL SCHOOL FOR GIRLS

REPORT NO. 53-102

Farm Records: In this connection the previous audit report stated as follows:

"The previous audit report commented in some detail with respect to the condition of the 1949 and 1950 annual farm reports together with their supporting detail. At this time, it was noted that there was no farm report whatsoever prepared for the 1951 farm year, probably because the farm activities had been curtailed during that year.

"It was noted that the individual who formerly functioned as the head farmer of this institution was transferred to the pay roll of the Lyman School for Boys in the same capacity in August 1950. To the present date he has remained on the pay roll of the latter institution although it was learned that he returned to this School in May 1951 and remained until the end of the harvesting season in November 1951. During this period three other former farm employees of this School

who were transferred with him to the Lyman School returned with him, although they too remained on the pay roll of the Lyman School.

"Attention is further called to the fact that one employee who still appears on the farm pay roll at the Lyman School is presently working on the farm at this institution.

"Apparently it is planned to have this individual conduct the 1952 farm program at this institution with the assistance of a school teacher and certain inmates.

"It was further noted that the farm ledger was discontinued on June 30, 1951. Daily reports of farm production are however being continued and were being currently posted to the stock ledger.

"Attention is also called, as a matter of information, to the fact that the hay production which utilizes a large part of the farm acreage of this School is being handled by the State Infirmary at Tewksbury under the direct supervision of employees of that institution."

It was again noted that at intervals during the period covered by the current examination certain farm employees continued to work at this institution although they appeared on the pay roll of the Lyman School for Boys.

It was also noted that the farm ledger which was discontinued as of June 30, 1951 had been revived and is being currently maintained. In addition the daily reports of farm production are being posted to the stock ledgers.

No annual farm report was prepared for the 1952 farm year. A tabulation of the farm production account in the general ledger for the past two farm years during which no annual reports were prepared indicated totals of \$1,260.60 and \$1,205.24 respectively.

Materials and Supplies: The previous audit report stated as follows in connection with this account:

"A test inventory which was taken on the date of audit, of seventy-four items indicated variances, either overages or shortages, in sixty-four accounts when compared with the balances appearing in the stock ledgers.

"On checking, it was noted that these variances were generally due, especially in the cases of the greater overages and shortages, to errors in posting of invoices, requisitions, etc.

"It was learned in this connection that no periodic inventories had been taken for one year by the institution employees, as is required by the Comptroller's Bureau, consequently the various accounts had not been adjusted during that period.

"It is therefore recommended that more care be exercised by the bookkeeping office in the posting of invoices and requisitions to the stock ledgers. A complete physical inventory should be taken so that all the accounts may be brought into actual agreement after adjustment with the physical inventory so taken. Henceforth, providing periodic inventories are taken and adjusted with the stock ledgers, any variances due to posting or otherwise may be traced easier and corrections or adjustments made so that the stock ledger accounts will always reflect the true condition of the storeroom items."

In general conditions noted at this time were comparable with those noted at the time of the previous examination. A test inventory taken on the date of audit of ninety-one items indicated variances, either overages or shortages, in fifty-five items.

A review of the adjustments for the current audit period indicated gross adjustments in 270 items with a total value of \$12,455.06 for overages and 386 items aggregating \$2,902.68 for shortages. There were also eighteen individual items, either overages or

shortages, in excess of \$100.00. It was further noted that the Comptroller's Bureau Accounting Manual regulations relating to inventory adjustments, particularly with relation to the explanation of items adjusted and approvals by the superintendent and the department wherever required were not complied with.

It is therefore recommended that the suggestions included in the previous audit report be complied with together with those herein mentioned relating to inventory adjustments.

Reconciliation of Pay Roll Bank Account: In this connection the previous audit report stated as follows:

"In reconciling this account it was necessary to consider the amount of \$22.91 in order to effect a reconciliation. Since it has been necessary to use this amount in order to reconcile this account for the past several years, it is recommended that the Comptroller's Bureau review the matter and suggest the necessary procedure to correct the situation."

It was noted in reconciling this account in connection with the current examination that it was necessary to again consider this item. It was noted however, that a request was made during the current audit period to the Budget Commissioner for a special appropriation to correct this deficiency.

REFORMATORY FOR WOMEN

REPORT NO. 53-103

Sale of Household Gas to Tenants: Attention is again directed to the fact that illuminating gas is sold to certain employees occupying quarters at the rate of 8 cents per hundred cubic feet even though its average cost is \$.195 per hundred cubic feet. During the audit period, income from this source totaled only \$246.00 as compared with a cost of \$599.63. It is again suggested that this matter be reviewed so that there will be no loss to the Commonwealth from this source.

Laundry Service to Employees: Previous audit reports have commented on the practice of doing laundry for employees at the rate of \$.44 per dozen pieces. Inasmuch as this rate is substantially lower than that charged by commercial laundries, it is suggested that these rates be adjusted so that they will compare more favorably with commercial rates.

Slaughter of Veal: Section 151 of Chapter 94 of the Tercentenary Edition of the General Laws as amended by Section 4 of Chapter 508 of the Acts of 1943 provides that calves shall not be slaughtered for sale as veal before they are two weeks old. While this statute apparently refers only to the sale of veal, it was obviously intended as a health measure. It is suggested that the intent of this Act should be followed by State institutions as well as public slaughterers. In this connection it was noted that calves were slaughtered for veal at the institution as follows:

| <u>Calf Number</u> | <u>Age</u> |
|--------------------|------------|
| 7343 and 7350 | 8 days |
| 7304 and 7342 | 10 days |
| 7340 | 11 days |
| 7339 | 12 days |
| 7349 | 13 days |

Farm Production: Milk production for the 1952 farm year was 185,087 quarts and was raised at a cost of \$.133 per quart. During this period milk sales totaled 57,112 quarts at \$.129 per quart and therefore represented a loss of \$245.58.

There was produced 16,635 1/8 pounds of pork at a cost of \$.286 per pound. In this connection attention is directed to the fact that only \$.22 per pound credit is allowed for pork.

Day Work by Inmates: During this audit period, 137 girls worked as domestics a total of 3,074 days earning in the aggregate the sum of \$12,997.83. The following shows the inmates who worked 50 days or more together with amounts earned:

| | | |
|---------|----------|----------|
| C. O'C. | 195 days | \$631 55 |
| H. V. | 137 days | 575 95 |
| H. J. | 92 days | 455 90 |
| B. M. | 77 days | 255 45 |
| P. McD. | 69 days | 339 45 |
| M. M. | 67 days | 262 15 |
| M. E. | 65 days | 324 55 |
| L. LeC. | 65 days | 300 80 |
| L. C. | 59 days | 238 40 |
| W. A. | 55 days | 214 75 |
| G. N. | 54 days | 234 10 |
| E. R. | 53 days | 248 75 |
| H. F. | 50 days | 205 85 |

Industries - Unfilled Orders: Because of the practice of accepting only those orders which can be immediately shipped, it was noted that all unfilled orders were dated not earlier than four months prior to the date of audit.

Charged-Off Items: It was noted that obsolete articles of clothing valued at \$448.98 have been charged-off the books, yet the respective items are still in the storeroom. It is suggested that the State Purchasing Agent be contacted to determine whether these articles may be of use to some State institution.

Credit Memos: It is suggested that credit memos bear the approval of a responsible employee. At present these forms are not signed.

Industry Losses: It was noted that the Knitting and Poultry industries indicate losses of \$5,934.56 and \$5,071.40 respectively for the 1952 calendar year.

During the same period the Flag and Sewing industries showed profits of \$12,403.98 and \$33,637.91 respectively and the total net profit for all industries was \$35,035.93.

Goods Sold Below Cost: It would appear from the records that the following articles were sold at less than book costs during the 1952 year:

| <u>Items</u> | <u>Unit Cost</u> | <u>Selling Price</u> |
|-------------------------------|------------------|----------------------|
| U. S. Wool Flag 5 x 8 | \$14 27 | \$14 00 |
| U. S. Wool Flag 6 x 10 | 23 36 | 21 00 |
| U. S. Silk Flag 4 1/3 x 5 1/2 | 58 90 | 55 15 |
| Mens Hose #102 | 4 68 | 3 50 |
| Mens Hose #140 | 5 43 | 3 50 |
| Womens Hose #200 | 8 09 | 4 75 |
| Bobby Sox White #340 | 4 85 | 3 25 |
| Pillow Cases 42 x 38 1/2 | 6 66 | 6 61 |
| Pillow Cases 42 x 40 1/2 | 6 99 | 6 82 |
| Pillow Cases 45 x 40 1/2 | 9 85 | 9 66 |
| Bleached Sheets 54 x 90 | 20 62 | 18 84 |
| Bleached Sheets 63 x 99 | 26 00 | 23 23 |
| Bleached Sheets 72 x 99 | 31 03 | 27 92 |
| Bleached Sheets 72 x 108 | 34 02 | 30 23 |
| Unbleached Sheets 54 x 78 | 14 59 | 14 15 |
| Unbleached Sheets 63 x 90 | 20 57 | 18 84 |
| Unbleached Sheets 63 x 108 | 24 45 | 22 15 |
| Unbleached Sheets 72 x 90 | 23 14 | 22 40 |
| Spreads 63 x 90 | 28 26 | 25 26 |
| Spreads 63 x 99 | 31 18 | 27 53 |
| Spreads 72 x 90 | 32 76 | 29 18 |
| Spreads 72 x 108 | 36 03 | 34 49 |
| Spreads 81 x 108 | 52 88 | 47 26 |

The records further indicate that the average number of inmates at this institution during the 1952 year was 225 of which 39, or 17% were employed in the industries. It is obvious, of course, that overhead expenses remain fairly constant so that any increase in production through the employment of additional inmates would have the immediate effect of reducing book costs of respective items manufactured for sale.

DEPARTMENT OF PUBLIC UTILITIES

REPORT NO. 53-107

General: During the current audit period the miscellaneous Cash Receipts book, which was in use in prior audit, has been discontinued, it was learned. It is nevertheless suggested that such a book is necessary and should be reinstated.

It was further noted that several Cash Receipts books of the various divisions which were originally kept in the main office were turned over to the respective divisions for the purpose of making original entries.

It was also noted that the miscellaneous Cash Sales which were formerly handled by the Gas and Electric Division are now handled by the Accounting Division.

It is recommended also that duplicate copies of all receipts be kept on file in the main office of the Department for all returns received from the various divisions.

Cash on Hand in Commercial Motor Vehicles Offices: On the date of this audit it was noted that \$30.00 which was received and recorded by this division as of January 3, 1953 has not yet been transmitted to the main office in the Department. This item was transferred one week after the audit had been started. The reason for not transmitting this money more promptly was indicated as "source unknown". It is recommended that henceforth all currency received be transmitted and deposited within a reasonable period after its receipt.

SCHOOL BUILDINGS ASSISTANCE COMMISSION

REPORT NO. 53-108

Grants to Cities and Towns: The previous audit report stated in this connection:

"There appears to be no record in the minutes of the meetings of the notes pertaining to the approval of the estimated construction cost or grants to the cities and towns.

"The first time that a signed approval of the Commission appears is when the project is completed. This is usually one and a half to two years after the estimated construction grant is indicated."

It was noted that this procedure was changed in January 1953 and now the minutes of the meetings include a record of the authorization officially voted on estimated construction costs and grants.

Construction Grants: As of the date of audit, this Commission, in compliance with Chapter 645 of the Acts of 1948, as amended, has paid out \$3,941,185.63 to the cities and towns of the Commonwealth as financial assistance for the construction of school buildings. A total of \$4,900,000.00 has been appropriated by the General Court for this purpose. Grants by the Commonwealth in excess of \$19,000,000.00 have been approved for completed projects based upon construction costs in excess of \$56,500,000.00. In addition to the foregoing, it is estimated that new grants of over \$34,100,000.00 will be made on estimated costs of approximately \$106,300,000.00 for projects now in process of construction.

Although Section 8 of Chapter 645 of the Acts of 1948, as amended, provides that payments may be made upon an "estimated" approved cost of construction, it is the policy of the Commission not to make any payments until the determination of the "final" approved cost.

Financing: Most cities and towns issue bonds to finance construction of school buildings. The grants made by the Commonwealth are paid in installments over the life of such bonds unless the project is financed to the extent of fifty per cent or less of the approved cost. In the latter case, the grant would be paid in five equal annual installments.

Reimbursements to Cities and Towns: The statute which created this Commission does not state from what source the school construction grants are paid.

However, each year when the General Court appropriated money for reimbursement to certain cities and towns for part of the cost of construction of school projects, it has stated that a sum equivalent to the expenditures under this item be transferred to the General Fund from the receipts of the income tax.

Under Section 18 of Chapter 58 of the General Laws, the proceeds from taxation on income under Chapter 62 (after making certain deductions, the principal one of which is for Education under Chapter 70 of the General Laws) are distributed to the cities and towns on the basis of their equalized valuation as stated in Chapter 559 of the Acts of 1945.

Prior to the creation of the School Buildings Assistance Commission, the various cities and towns would have received their respective statutory allocations without any deductions for school construction grants. It therefore appears that the cities and towns are now supporting, by failing to receive what would ordinarily have been potential receipts, the School Building appropriations as appropriated by the Legislature.

PUBLIC BEQUEST COMMISSION

REPORT NO. 53-110

Accumulation of Fund: In this connection the previous report stated:

"Section 28C of Chapter 6 of the Tercentenary Edition of the General Laws reads as follows:

"Section 28C. Distribution of Income - When, and so long as, the principal of said fund amounts to five hundred thousand dollars, said commission, with the approval of the governor and council, may distribute, in accordance with its rules and regulations relative thereto, the income from said fund to such worthy citizens of the commonwealth, as, in its opinion, by reason of old age and need, are entitled thereto. No man under sixty-five and no woman under sixty shall be deemed to be entitled to assistance from such fund."

It is noted that the total amount accumulated in this fund since September 1, 1929 is only \$3,943.72. Since no payments may be made from the fund until the principal amounts to \$500,000.00, it is apparent that unless contributions are increased to a far greater extent than those which have been received to date, there is little likelihood that the purpose for which the fund was created will ever be carried out.

There were no contributions received by this fund during the audit period.

EMERGENCY FINANCE BOARD

REPORT NO. 53-116

Activities of Board: A summary of the respective number of cases requiring Board action or approval during the fiscal year ended June 30, 1952 follows:

| <u>Description</u> | <u>Authority</u> | <u>No. of Items Acted Upon</u> | <u>Pro Rata Expense</u> |
|---|---------------------------------------|------------------------------------|-----------------------------|
| Post War Rehabilitation | Chap. 5 Acts of 1943 | 12 | \$ 1,550 00 |
| Public Works Projects | Chap. 74 Acts of 1945, as amended | 1 | 1,679 58 |
| Creation of Stabilization Fund | Chap. 124 Acts of 1945 | 3 | - |
| Extraordinary Repairs to Public Buildings | Chap. 275 Acts of 1948 | 10 | 1,518 00 |
| Municipal Relief | Chap. 90 Acts of 1949, as amended | 1 | 1,679 58 |
| Formation of Regional School Districts | Chap. 638 Acts of 1949 | 18 | 2,786 00 |
| School Building Assistance | Chap. 528 Acts of 1950, as amended | 17 | 2,750 00 |
| Civil Defense Loans | Chap. 580 Acts of 1951 | 5 | 900 00 |
| Debt Limit for Cities and Towns | Chap. 56 Acts of 1952 | 14 | 3,869 58 |
| | | <u>81</u> | <u>\$16,732 74*</u> |
| Total Number of Board Meetings - 1952 Fiscal Period | | <u>68</u> | |

* Includes June 1952 liabilities for which no appropriation was available, as follows:

| | |
|----------------|-----------------|
| Pay Roll | \$714 00 |
| Travel Expense | 81 36 |
| | <u>\$795 36</u> |

In connection with the foregoing, attention is directed to the fact that although the foregoing liabilities were incurred, no appropriation was available to pay them.

BOARD OF REGISTRATION OF CERTIFIED
PUBLIC ACCOUNTANTS

REPORT NO. 53-117

Bonding of Employees: The previous audit report noted that certain individuals who handled cash receipts were not bonded. In this connection it was noted that the senior clerk in charge of cash receipts is now bonded in the sum of \$1,000.00.

Cash Receipts Book: It was noted that a representative of the Comptroller's Bureau installed an adequate cash receipts book in conformance with a recommendation in the previous audit report.

DEPARTMENT OF PUBLIC WELFARE

GENERAL DEPARTMENT

REPORT NO. 53-119

Old Age Assistance - State Share: For the fiscal year ending June 30, 1952 an appropriation of \$39,700,000.00 was granted. A statement showing the status of this appropriation on April 30, 1953 follows:

OLD AGE ASSISTANCE - STATE APPROPRIATION

July 1, 1952 to April 30, 1953

| | |
|-----------------------------------|-----------------------|
| Appropriation | \$39,700,000 00 |
| Allotments | 38,377,877 07 |
| Balance Unallotted April 30, 1953 | <u>\$1,322,122 93</u> |

Allotments

| | |
|--------------------|------------------------|
| July 31, 1952 | \$11,513,703 46 |
| August 31, 1952 | 3,559,741 21 |
| September 30, 1952 | 2,509,303 64 |
| October 31, 1952 | 3,104,062 00 |
| November 30, 1952 | 3,895,009 76 |
| December 31, 1952 | 5,271,223 00 |
| January 30, 1953 | 2,168,051 00 |
| February 28, 1953 | 2,302,280 00 |
| March 31, 1953 | 363,743 00 |
| April 30, 1953 | 3,690,760 00 |
| | <u>\$38,377,877 07</u> |

Expenditures

| <u>Paid to</u> | <u>Paid During Month of</u> | <u>Amount Paid</u> | <u>Period Covered by Payment</u> |
|--|---------------------------------|--------------------|---|
| Tewksbury State Hospital | July 1952 | \$ 9,353 06 | June 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | July 1952 | 1,044,186 04 | April, May, June, July, Aug. 1950, Nov. and Dec. 1951 |
| Various Cities and Towns Except Boston | July 1952 | 10,389,517 42 | Feb., March, April, May 1952 |
| Tewksbury State Hospital | Aug. 1952 | 8,979 22 | August 1952 |

| | | | |
|--|------------|------------------------|--|
| Overseers of Public Welfare, 43 Hawkins St., Boston | Aug. 1952 | \$ 1,143,940 98 | Sept. 1950 (adjust- ments) Jan., Feb. 1952 |
| Welfare Districts | Aug. 1952 | 153 12 | July, Aug., Sept. 1952 |
| Tewksbury State Hospital | Aug. 1952 | 8,956 82 | Sept. 1952 |
| Various Cities and Towns Except Boston | Aug. 1952 | 2,455,647 01 | June 1952 |
| Welfare Districts | Sept. 1952 | 7,594 53 | Second Quarter of 1952 |
| Various Cities and Towns Except Boston | Sept. 1952 | 2,501,708 71 | July 1952 |
| Tewksbury State Hospital | Oct. 1952 | 8,272 69 | Nov. 1952 |
| Various Cities and Towns Except Boston | Oct. 1952 | 2,419,061 76 | Aug. 1952 |
| Tewksbury State Hospital | Oct. 1952 | 8,486 72 | Oct. 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Oct. 1952 | 635,000 00 | Mar. 1952 |
| Various Cities and Towns Except Boston | Nov. 1952 | 2,546,954 53 | Sept. 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Nov. 1952 | 1,340,000 00 | Apr., May 1952 |
| Welfare Districts | Nov. 1952 | 8,054 21 | Third Quarter of 1952 |
| Tewksbury State Hospital | Dec. 1952 | 8,014 70 | Dec. 1952 |
| Various Cities and Towns Except Boston | Dec. 1952 | 2,266,222 20 | Oct. 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Dec. 1952 | 1,805,000 00 | June, July, Aug. 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Dec. 1952 | 1,200,000 00 | Sept., Oct. 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Jan. 1953 | 34,369 19 | Oct., Nov., Dec. 1950 (adjustments) |
| Various Cities and Towns Except Boston | Jan. 1953 | 2,111,681 72 | Nov. 1952 |
| Tewksbury State Hospital | Jan. 1953 | 7,832 83 | Jan. 1953 |
| Tewksbury State Hospital | Feb. 1953 | 7,553 90 | March 1953 |
| Tewksbury State Hospital | Feb. 1953 | 7,752 69 | Feb. 1953 |
| Various Cities and Towns Except Boston | Feb. 1953 | 2,302,280 77 | Dec. 1952 |
| Welfare Districts | Feb. 1953 | 8,840 81 | Fourth Quarter of 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Mar. 1953 | 363,742 81 | July through Dec. 1951 (adjustments) |
| Tewksbury State Hospital | Mar. 1953 | 7,361 90 | April 1953 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Apr. 1953 | 85,674 60 | Jan. through Apr. 1952 (adjustments) |
| Various Cities and Towns Except Boston | Apr. 1953 | 2,215,760 27 | Jan. 1953 |
| Tewksbury State Hospital | Apr. 1953 | 7,508 71 | May 1953 |
| Refunds of Expenditures | | (108 00) | |
| Total Expenditures | | <u>\$36,975,355 92</u> | |
| Allotment Balance, April 30, 1953 | | <u>\$1,402,521 15</u> | |
| Total Unexpended Balance, April 30, 1953 | | <u>\$2,724,644 08</u> | |

It was noted that the total unexpended balance in this appropriation on April 30, 1953 was \$2,724,644.08. The City of Boston on February 29, 1952 has been paid on an estimated basis through October 1952 and the bills from that city have been audited only through May 1952. The other cities and towns have been paid through January 1953. It would appear from the foregoing that by June 30, 1953 there will be a potential liability of approximately \$13,000,000. At present such liabilities are not recorded in the

general ledger of the Department and it is suggested that the Comptroller's Bureau be requested to provide for the recording of these liabilities in the Department general ledger so that the true financial status will be shown.

In this connection it was noted that a letter dated January 31, 1951 from the Comptroller's Bureau to the Department of Public Welfare included the following paragraph:

"Old Age Assistance - State Share: The Auditor suggested that the Comptroller be requested to provide for the recording in the general ledger of audited and approved liabilities. In accordance with the provisions of Chapter 29, Section 26 of the General Laws, as amended, an expenditure in excess of an appropriation cannot impose legal liability upon the Commonwealth."

Said Section 26, as amended by Section 1 of Chapter 636 of the Acts of 1947, reads as follows:

"Section 1. Chapter 29 of the General Laws is hereby amended by striking out section 26, as most recently amended by section 13 of chapter 242 of the acts of 1945, and inserting in place thereof the following section:- Section 26. Expenses of offices and departments for compensation of officers, members and employees and for other purposes shall not exceed the appropriations made therefor by the general court or the allotments made therefor by the governor. No obligation incurred by any officer or servant of the commonwealth for any purpose in excess of the appropriation or allotment for such purpose for the office, department or institution which he represents, shall impose any liability upon the commonwealth."

With respect to the foregoing, it certainly does not appear that said Section 26 prohibits including in the general ledger accounts these liabilities and certainly to omit this information will result in distorted picture of the financial condition of the Commonwealth.

Aid to Dependent Children - State Share: For the fiscal year ending June 30, 1953 an appropriation of \$6,220,114.56 was granted. A statement showing the status of this appropriation on April 30, 1953 follows:

AID TO DEPENDENT CHILDREN - STATE SHARE

July 1, 1952 to April 30, 1953

| | |
|---------------------------------------|---------------------|
| Appropriation | \$6,220,114 56 |
| Allotments | <u>6,109,785 16</u> |
| Appropriation Balance, April 30, 1953 | <u>\$110,329 40</u> |

Allotments

| | |
|--------------------|-----------------------|
| July 31, 1952 | \$4,652,206 25 |
| August 31, 1952 | 361,023 87 |
| September 30, 1952 | 1,121 16 |
| October 31, 1952 | 549,403 88 |
| November 30, 1952 | 540,530 00 |
| January 30, 1953 | 5,500 00 |
| | <u>\$6,109,785 16</u> |

Expenditures

| <u>Paid to</u> | <u>Paid During</u> <u>Month of</u> | <u>Amount Paid</u> | <u>Period Covered</u> <u>by Payment</u> |
|--|---------------------------------------|--------------------|--|
| Overseers of Public Welfare, 43 Hawkins St., Boston | July 1952 | \$1,027,174 39 | July through Dec. 1951 |

| | | | |
|---|--------------|-----------------------|----------------------------|
| Various Cities and Towns Except Boston | July 1952 | \$3,635,000 64 | July 1951 through May 1952 |
| Various Cities and Towns Except Boston | Aug. 1952 | 351,015 02 | June 1952 |
| Welfare Districts | Aug. 1952 | 8 85 | July through Sept. 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Oct. 1952 | 549,403 88 | Jan., Feb., Mar. 1952 |
| Welfare Districts | Nov. 1952 | 1,705 89 | Third Quarter of 1952 |
| Welfare Districts | Feb. 1953 | 1,735 43 | Fourth Quarter of 1952 |
| Overseers of Public Welfare, 43 Hawkins St., Boston | Nov. 1952 | 538,823 79 | Apr., May, June 1952 |
| Welfare Districts | Sept. 1952 | 1,121 16 | Second Quarter of 1952 |
| Total Expenditures | | <u>\$6,105,989 05</u> | |
| Allotment Balance April 30, 1953 | | <u>\$3,796 11</u> | |
| Unexpended Balance April 30, 1953 | \$110,329 40 | | |
| Allotment Balance April 30, 1953 | 3,796 11 | <u>\$114,125 51</u> | |

It was noted that the total unexpended balance in this appropriation on April 30, 1953 was \$114,125.51. On April 30, 1953 the City of Boston and the other cities and towns had been paid through June 1952. It would appear from the foregoing that by June 30, 1953 there will be a potential liability of approximately \$5,000,000.00. As stated earlier in this report, such liabilities are not presently being recorded in the Department general ledger and it is suggested that the Comptroller's Bureau also be requested to provide for setting them up on the accounts.

Old Age Assistance and Aid to Dependent Children - State Share - Payments to Cities and Towns: During the fiscal year ended June 30, 1952 disbursements of \$34,532,146.11 were made to cities and towns as reimbursements for State share of payments by local welfare agencies for "Old Age Assistance". During the same period \$6,144,481.81 was disbursed to cities and towns as reimbursements for State share of expenditures for "Aid to Dependent Children". The disbursements by the Department were for various periods up to June 30, 1952. In this connection, Schedules No. XVIII and XIX appended to this report show the payments made during the fiscal year, together with the periods covered by the respective payments.

Assistance for Totally Disabled Persons: This assistance was authorized by Chapter 741 of the Acts of 1951, effective November 1, 1951 and provides for local, State and Federal participation.

Federal participation is available under Title XIV - Aid to Permanently and Totally Disabled as added by the Social Security Act Amendment of 1950.

The Massachusetts State Plan for Aid to Persons Permanently and Totally Disabled was submitted on December 28, 1951 to the Federal Security Agency, Boston, Massachusetts. Written approval was received from the Social Security Administration in Washington, and the Department was notified by letter from the State Treasurer May 21, 1952 of receipt of U. S. Treasury checks totaling \$1,220,846.26 for three quarters ended June 30, 1952.

For the fiscal year ending June 30, 1953 an appropriation (State) of \$2,512,500.00 was granted and the balance of \$1,275,802.30 was brought forward from 1952. Of the total of \$3,788,302.30, the amount of \$237,176.31 was allotted to cover cases at the Tewksbury State Hospital.

Advances to Employees: As of the date of audit it was noted that there were 92 advances to employees totaling \$7,983.24. Verification notices were mailed to each of these employees and only 84 were returned as being correct. The remaining 8 advances were not verified. These latter balances amounted to \$768.54.

Canteen Fund: A savings bank account was opened on January 31, 1952 to serve as the Department Canteen Fund account. The bankbook indicated a balance of \$398.41 on the date of audit. During this period the deposits totaled \$423.28, and a single

withdrawal involved only \$24.87. Receipts were recorded as from the following sources:

| | |
|---------------------------------|-----------------|
| Pay Station Commissions | \$121 14 |
| Milk and Cigarettes Commissions | 102 25 |
| Coca Cola Commissions | 58 12 |
| Other Sales | 140 00 |
| | <u>\$421 51</u> |
| Interest on Savings Account | 1 77 |
| | <u>\$423 28</u> |

As no account for this fund is carried in the general ledger, it is suggested that one be opened. In this connection it was further noted that telephone commissions were formerly turned over to the State Treasurer as Departmental Income. It was not possible to verify all other income as no substantiating detail was available for audit purposes.

Division of Child Guardianship - Accounts Receivable - Verification Notices Returned with Liability Denied: The previous audit reports stated that a verification notice sent to the City of Waltham was returned with liability denied. The previous audit report further stated that Waltham's denial was based on the City's interpretation of Section 2, Chapter 123 of the Tercentenary Edition of the General Laws and that it was understood that an interpretation of this section had been requested from the Attorney General.

Upon inquiry it was learned that to date of this audit, May 14, 1953, no opinion has yet been received from the Attorney General and the situation with respect to this claim remains the same.

Attention is also directed to the fact that a letter from the general agent of the Board of Public Welfare in the City of Somerville, in reply to a verification notice, indicated that no further payment would be made on a balance of \$1,035.56, which appears as open in this Division's Suspense Accounts Receivable ledger.

It was the opinion of the City Solicitor of that City that it is not responsible for the support of the child named in the account, because it is contended that the child is feeble-minded.

This City also denies settlement of two children, for whom a total of \$394.62 is due for support, which appears in the active Accounts Receivable ledger of the Division.

It is suggested that these balances be turned over to the Attorney General for collection, and that the latter two accounts be transferred to the Suspense Accounts Receivable ledger.

Quarterly Billings - Cities and Towns - Division of Child Guardianship: Bills for the three months ended March 31, 1953 were not completed until after the date of the audit and were mailed the latter part of May. The total billings for this quarter, totaling \$90,526.67, are not included in the total charges for the audit period as indicated in Schedule III of the report.

Reimbursements for Support of Children by Individuals: In addition to the reimbursements by cities and towns for the support of certain children, the Department is also reimbursed by individuals voluntarily or upon court order.*

In the case of a child committed to the care of the Division by court order, the court may order a parent to pay a designated amount for the support of that child. These payments are made by the parent directly to the probation officer of the court which has jurisdiction. The probation officer remits the amount collected to the Division of Child Guardianship.

Referring to these reimbursements, the previous audit report stated:

"It is suggested that all districts, including Boston, forward settlement information immediately to the Accounts Section so that billings may be started promptly. It is suggested that a register be maintained, together with a current intake card file, from which information regarding settlements, etc. could be forwarded to the Accounts Section for billing, immediately upon the determination of the proper settlement."

It was understood that the suggested register has not been installed. However, the Accounts Section checks currently with the "intake card file" kept in the Research and Statistics Section of the Division of Child Guardianship.

Storeroom - Division of Child Guardianship: This storeroom was closed September 12, 1952 and the inventory was transferred. In this connection it was noted that this account was closed out as follows:

| Requisition No. | Date | Issued to | Amount |
|---|---------|------------------------------|--------------------|
| 00028 | 7-18-52 | An individual for a ward | \$ 7 30 |
| 00064 | 8-14-52 | Youth Service Board | 5,838 82 |
| 00065 | 9-4-52 | Reception Home in Dorchester | 4,377 56 |
| 00066 | 9-9-52 | Walter Fernald State School | 7,344 41 |
| Total | | | \$17,568 09 |
| Net adjustment necessary to close stock ledger accounts | | | 232 76 |
| | | | <u>\$17,800 85</u> |

Wards' Wages - Division of Child Guardianship: The practice of billing and collecting from employers of wards was discontinued on October 31, 1951. The wards now handle their earnings themselves.

Division of Child Guardianship - Funds of Wards - Whereabouts Unknown: In accordance with Chapter 618 of the Acts of 1941 unclaimed funds of State wards seven years after becoming of age and who cannot be located should be transferred to the State Treasurer annually by November 30 of each year. There were no accounts transferred to the State Treasurer during this audit period. As of the date of the previous audit, there were twenty accounts totaling \$809.96 in this category and during the audit period, accounts of four wards who were located were paid. As of May 14, 1953, however, there were still accounts belonging to ten wards, the present whereabouts of whom were unknown, with balances totaling \$429.52 which came within this category.

Trustee Accounts - Division of Child Guardianship: At the date of the current audit there was included in the control total of the "Trustee Accounts" one account which was in the name of the "Vacation Fund". This fund was handled and the disbursements were made at the discretion of supervisors and visitors, but were not confined to vacation purposes. The balance in the vacation fund on May 14, 1953 was \$662.31.

Trustee Accounts - Division of Child Guardianship: Included in the control account balance as of May 14, 1953 were 186 savings bank accounts totaling \$6,524.42 in the names of former wards not now under the control of the Department. The whereabouts of many of these wards are unknown and it is understood that efforts are being made to ascertain their present locations.

If they cannot be found, it is suggested that a legal opinion be requested of the Attorney General as to the possibility of the application of the balances to partially pay for support furnished by the Commonwealth.

Wards Transferred or Discharged: It is suggested that the section handling these Trustee accounts be notified of all transfers and discharges in order that bank savings accounts may be released or transferred. In this connection it was noted that the transfer of two wards to another department had been arranged several years ago, yet the transfer of their bank accounts was not effected until this audit period because the notice of their transfers was apparently not received from the visitor in charge.

Ledger Accounts with Municipalities Account of Division of Public Assistance: Previous audit reports have stated:

"It is again recommended that each ledger account with a municipality be backed up by a ledger account with each person included in the make-up of the account - at present there are ledger accounts with the municipalities but the detail is shown only on duplicate bills."

In this connection it was noted that prior to January 1952, the bills rendered to the cities and towns for support of settled cases at the Tewksbury State Hospital were exclusively charges against local general relief. After that date, bills were also rendered the place of settlement for "Old Age Cases" and "Total Disability Cases" at the hospital, such billings being permissive in the first category under Chapter 343 of the Acts of 1950 and in the second category under Chapter 741 of the Acts of 1951, also under Section 10 of Chapter 122 of the General Laws as amended by Chapter 351 of the Acts of 1941.

Beginning in January 1952, billings and detail records relating to the Accounts Receivable due from the cities and towns on these cases were kept in the Social Service section and on the date of audit were not under the supervision of the "Bureau of Accounts". These records now consist of the following:

Raymond Trial Balance Book showing amounts due from cities and towns broken down in the three categories, but not showing the names of the patients concerned

Duplicate bills for the general relief cases

Billing cards for the Old Age Assistance and "Total Disability Cases"

A necessary part of the annual audit is the taking of a detailed trial balance of these Accounts Receivable and under the present arrangement this is difficult and time consuming.

In connection with the examination of these accounts, the following was noted:

1. A trial balance of the City and Town individual ledger cards as of April 29, 1953 indicated a net difference of \$61.91. This amount represents the net between \$1,745.39 plus and \$1,683.48 minus items and were found in the balance of 19 city and town accounts. Charges, credits and collections from May 1st. to May 14th. were added to arrive at a Control balance as of May 14, 1953.
2. Monthly balances are not shown on the individual cities and towns ledger cards.
3. A daily record of cash receipts is not kept in detail.
4. The person handling the cash is not bonded.

It is also suggested that accounts in arrears one year or more be turned over to the Attorney General for collection, and also be transferred from the Active to the Suspense Accounts Receivable Control account in the general ledger.

It was noted that there appears to be a considerable delay between the time the remittance check is received in the Department and its date of entry on the official cash book.

It is again recommended that the Comptroller's Bureau be requested to review the entire system and provide routines which may be readily audited.

Trustee Accounts - Division of Public Assistance: There are 69 savings accounts with balances totaling \$8,651.77 carried with the Trustee accounts of the Division. The whereabouts of many of the persons in whose name the accounts are held have been unknown for several years.

It is suggested that this Division make an effort to locate all such persons and transfer these accounts which have been held beyond the legal limit to the State Treasurer.

Rentals: An analysis of the annual property rentals listed as being paid by this Department, include the following:

| | |
|-------------------------------|-------------|
| 600 Washington Street, Boston | \$70,000 00 |
| 107 Front Street, Worcester | 7,000 00 |
| 232 Main Street, Brockton | 4,680 00 |
| 46 Amesbury Street, Lawrence | 4,500 00 |

| | |
|--|------------|
| 105 Williams Street, New Bedford | \$2,544 25 |
| 95 State Street, Springfield | 5,808 00 |
| 95 State Street, Springfield, Room 711 | 1,080 00 |

It was also noted that individual monthly garage rentals for the storage of automobiles used by Department employees varied between \$5.00 and \$20.00.

CIVIL DEFENSE AGENCY

REPORT NO. 53-128

Civil Defense Agency - Cities and Towns Trust Funds - Account No. 6815-97-01-36: From this account the various cities and towns in the Commonwealth may advance money for the purchase of defense equipment to be made directly by them or by the Federal Government. The balance in this account as of May 25, 1953 was \$458,429.16 of which \$412,634.58 was encumbered.

Account No. 6816-97-01-36: From this account the several cities and towns may purchase defense equipment with their own funds and be reimbursed by the Federal Government on a matching fund basis. The Federal Government may also advance funds upon request by the cities and towns for such purchases to the Civil Defense Agency and, upon receipt of matching funds from the cities and towns, may make such purchases and submit bills to this Agency where they are processed for payment. The balance in this account as of May 25, 1953 was \$126,649.06 of which \$119,054.65 was encumbered.

Civil Defense Agency - State Trust Funds - Account No. 4128: From this account, advances are made by the Federal Government to match funds of the Commonwealth which are spent for the defense program. There was a balance in this account of \$27,824.02 on May 25, 1953.

Account No. 4129: From this account reimbursements are made by the Federal Government up to fifty per cent for money spent by the Commonwealth for items approved by the Federal Government. There was no balance in this account as of the audit date since all reimbursements had been turned into the State Treasury.

STATE TEACHERS COLLEGE AT FRAMINGHAM

REPORT NO. 53-129

General: The past several audit reports have commented in detail on the impossibility of completing the regular audits because the college financial records were not currently or sufficiently maintained. Since the previous visit to this college for the purpose of making the annual audit the records of this institution were, with the assistance of the Comptroller's Bureau, brought into agreement with the Comptroller's records as of June 30, 1952. It was also noted that they are now being currently maintained.

Outstanding Checks: It was noted that two checks have been outstanding since December 1951. It is suggested that payment on them be stopped. The proceeds should be segregated in an "Unpaid Check Fund" in accordance with instructions in the Comptroller's Bureau Manual of Accounts.

Accounts Receivable Charges: Considerable difficulty was encountered in attempting to verify the various charges to Accounts Receivable because many charges were not established until the cash had been collected.

It is suggested that charges on account of fees be brought on the records from original class lists as they are reported by the college registrar's office. Charges for students' board should be set up from original matron's reports. Subsequent refunds, rebates and further or additional charges should be journalized in detail as they develop.

It was also noted that the regular form sales books are not being used to handle sales. It is suggested that this type of receipt book be used for such transactions as sales of meal tickets, transcripts of records, etc.

Out-of-State Students Not Paying Prescribed Tuition: Students' addresses as indicated on their applications for admission were reviewed in detail in order to establish that they were paying the tuition rates applicable to their particular residential status. In this connection it was noted that two students had paid the rate established for Massachusetts students even though it appeared that they should have paid the out-of-state rate.

One of these students resigned in November 1952 while the other is still a student.

This matter was discussed with the Registrar of the College who it is understood will investigate and take any action necessary.

Old Outstanding Accounts Receivable: It was noted that there were several outstanding accounts which were more than one year old. It was also noted that these accounts were transferred to the Attorney General for disposition during the progress of this audit.

DEPARTMENT OF EDUCATION

GENERAL DEPARTMENT

REPORT NO. 53-130

Accounts Receivable: It was noted that there is being carried as outstanding several accounts which have been in this category more than two years. Inasmuch as there has been no recent activity in this account, it is suggested that a list be prepared and turned over to the Attorney General's office for disposition. It was further noted that three accounts totaling \$272.59 were charged off during the current audit period for lack of a better address with the approval of the Attorney General.

Accounts Receivable - Audio-Visual Sales: A great deal of difficulty was experienced in reconciling the balances of those outstanding accounts as appearing on the records of the Audio-Visual Division and the accounts in the general departmental receivables ledger.

It was further noted that the triplicate sales books which were being used during the prior audit period had been discontinued.

A so-called "fan-fold" system was installed on July 1, 1952. In this connection it was noted that all cash received in advance on account of sales was treated as "Cash Sales". Because of this arrangement no credit balances appeared on the records, and it was necessary on June 30, 1952 to adjust from the records all balances.

It was also noted that sales totaling \$373.45 were entered during the current audit period to reduce credit balances which were not reflected on the records. In this connection it was learned that it is now the intention not to make any charges to reduce these credit balances until such credit balances have been exhausted.

In order that a better control may be obtained of these accounts it is suggested that a detailed list of outstanding accounts be submitted to the Business Agent's office for reconciliation at the end of each month.

Accounts Receivable - University Extension Class and Correspondence Sales: In reconciling the University Extension Class and Correspondence Sales between the Division's unpaid bills and the accounts receivable ledger, it was noted that several accounts appeared on the ledger which had been paid or canceled. It was also noted that certain accounts appeared as owing in the Division's unpaid file which were not reflected on the control ledger.

In this connection it is also suggested that a list of outstanding accounts be prepared and reconciled at the end of each month between the general records of the department and the billing section.

Suspense Column - Cash Book: It was noted that memorandum accounts have been set up in the general ledger for the control of these suspense items. This account was analyzed and is represented as follows:

| | | |
|----------------|------------|-----------------|
| Correspondence | 8 Accounts | \$ 74 75 |
| Class | 3 Accounts | 37 00 |
| Sales | 1 Account | 3 00 |
| Total | | <u>\$114 75</u> |

Obsolete and Inactive Books: With the approval of the State Purchasing Agent, 1,315 copies of obsolete and inactive books costing a total of \$999.56 were disposed of during the current audit period to State Teachers Colleges, State Prisons, and State-aided Vocational Schools.

Purchase of Books for New Courses: It is suggested that the practice of purchasing books before a course is submitted and approved by the editor should be better

controlled. In this connection it was noted that in one instance 25 books costing \$120.00 were purchased before a course was finally edited. In the interim, however, new editions of this book were printed making the original purchase obsolete.

STATE BOARD OF RETIREMENT

REPORT NO. 53-131

General: The audit reports of the past four years have indicated that the entered records of this Board were so far behind the actual transactions on the respective audit dates that it had been impossible to make the annual examinations required by statute. The condition of the records applicable for the year 1952 found when this audit was initiated on June 3, 1953 again indicate that the Board apparently has failed to take action to bring their records on a current basis. On the date of audit the following situations existed:

- (a) Trial Balance of General Ledger - December 31, 1952:
Not completed. Awaiting approval of certain journal entries by the Board Secretary.
- (b) Trial Balances of Subsidiary Control Ledgers - December 31, 1952:
Not completed.
- (c) Trial Balances of Individual Accounts Ledgers - December 31, 1952:
Not completed. Only 3 out of 20 State Departments completely posted to the ledger cards for year 1952. Only 5 out of 48 State Hospitals, Teachers Colleges and Institutions completely posted to the ledger cards for year 1952.
- (d) Trial Balances of Individual Accounts Ledgers Reconciled to Their Subsidiary Control Ledger Balances - Years 1951 and 1952:
Only 14 out of 20 State Departments reconciled for the year 1951. Only 14 out of 48 State Hospitals, Teachers Colleges and Institutions reconciled for the year 1951. None of the 20 State Departments or the 48 State Hospitals, Teachers Colleges and Institutions reconciled for the year 1952.

As a result of the foregoing conditions, it was impossible to complete the verification of the financial transactions for the calendar year 1952; to balance the individual Accounts Ledgers to their respective subsidiary ledger controls and to the general ledger control for the calendar years 1951 and 1952; and to verify the balances of the members of the State Retirement System as of December 31, 1952.

Attention is also directed to the fact that certain statements indicating changes in the various funds, etc., for the current year and their status at the end of the year could not be prepared because of the absence of the necessary data.

To continue to permit such practices which for the past five years have been inconsistent with any effective accounting control normally necessary for the safeguarding of State funds and Trust funds certainly constitutes a breach of trust on the part of the Commonwealth. It is, therefore, urged that those in authority take the necessary action to bring the records on a current basis.

Financial Statements: In connection with this examination it was noted that certain financial statements apparently required by statute had not been compiled by the Board to June 30, 1953 as of the calendar year ended December 31, 1952.

In this connection Section 20, Subsection 5 (h) of Chapter 32 of the Tercentenary Edition of the General Laws states:

"Each board shall annually, on or before March first, file in the office of the commissioner of insurance the financial statement of the system which is required by the provisions of paragraph (1) (c) or (2) (e) of section twenty-three. Investments of the system shall be carried at values determined by the commissioner in accordance with the requirements of paragraph (1) (b) of section twenty-one."

In further connection with this matter Section 20, Subsection 5 (i) of the Tercentenary Edition of the General Laws states in part:

"Each board shall prepare annually a report showing the financial condition of the system as of December thirty-first of the previous year and showing the financial transactions thereof during the previous year. Such report shall also contain such statistical information with reference to the membership of the system and such other matters pertaining to the operation thereof as the board deems to be of general interest. The state retirement board shall file a copy of its report with the governor, and with the state treasurer for publication in his annual report . . ."

Cash Transactions: It was noted that certain cash transactions applicable to this Fund are entered on the State Treasurer's records several weeks prior to their entry on the Board records. These transactions which ordinarily originate in the Department of the State Treasurer comprise the following items:

1. Retirement Deductions on Warrant Pay Rolls
2. Proceeds from Sale or Maturity of Investments
3. Interest from Investments
4. Purchases of Investments

The practice employed by the Board for recording these items is to keep their cash book open after the close of the month for a period long enough to make the necessary entries. This permits the Board's bookkeeper to physically obtain a list of the transactions together with their dates. This information is later transcribed on to the Board records.

To assist the Board in maintaining its cash book on a daily basis, it is recommended that the Department of the State Treasurer furnish the Board with duplicate copies of all receipt vouchers and notices affecting these transactions.

Investments - Amortized Value: It was noted that the amortization of bond discount applicable to certain securities purchased below par was \$11,278.13 in excess of the proper requirements for the 1952 year due to errors in computation. This excessive charge-off resulted in an overstatement in the balance of the investments account which is carried on the records at their amortized value. This situation was brought to the attention of the secretary of the Board who corrected the investments account balance as of December 31, 1952 while the current audit was in progress.

Accrued Interest on Investments: It was also noted that the balance of accrued interest on investments was understated by \$2,180.35 as the result of errors made in the computations. It is urged that greater care be exercised by Board employees in the computation of these accrual items.

Reimbursements Due the Commonwealth: The records indicate that the following items were due as of the date this audit was initiated on June 3, 1953:

| <u>From</u> | <u>Description</u> | <u>Amount</u> |
|----------------------------------|---|---------------------|
| Metropolitan District Commission | Reimbursement of pensions paid M. D. C. retired employees or their dependents for the fiscal year ended June 30, 1952. See Chapter 29, Section 9A of the General Laws | \$208,878 86 |
| City of Westfield | Reimbursement of portion of the pension paid to retired State employee in the 1952 calendar year applicable to prior service with City of Westfield. See Chapter 32, Section 3, Paragraph 8 (c) of the General Laws | 749 93 |
| | | <u>\$209,628 79</u> |

The foregoing items were not reflected on the accounts of this Board as outstanding.

It is suggested that items of this nature should be carried in some account properly indicating that they are outstanding.

Refunds Due Former Employees: An examination of the refund applications of employees whose service was terminated indicated 295 applications on hand on the date of audit as follows:

| <u>Period Received</u> | <u>Number of Applications</u> |
|-------------------------------|-------------------------------|
| January 1953 to June 3, 1953 | 208 |
| January 1952 to December 1952 | 65 |
| January 1951 to December 1951 | 22 |
| | <u>295</u> |

In this connection the law provides for interest to continue to accrue on the balances of former employees for a period of two years beyond the date of their separation from the service.

Attention is directed to the fact that there were 288 applications for refunds in this category at the time of the previous examination. It is, therefore, suggested that particular efforts be made to pay these refunds more promptly.

Refund Checks Returned by Post Office: It was noted that on June 3, 1953 there were 149 refund checks on hand totaling \$3,986.92 which had been returned by the postal authorities because of changes of address, etc. An analysis of these checks indicate that many are more than one year old and have already been transferred to the "Unpaid Check Fund" by the State Treasurer in accordance with the Comptroller's Accounting Manual. These checks were aged as follows:

| <u>Description</u> | <u>Total Number</u> | <u>Total Value</u> |
|---------------------------|---------------------|--------------------|
| Less than one year old | 16 | \$1,701 77 |
| From one to six years old | 95 | 2,085 32 |
| Over six years old | 38 | 199 83 |
| | <u>149</u> | <u>\$3,986 92</u> |

The foregoing was brought to the attention of the secretary of the Board and it was suggested that all checks outstanding more than one year be turned over to the State Treasurer's office for disposition.

Reinstatement of Former Member: It was noted that the partial payment of \$80.00, which was received from a reinstated employee of the Metropolitan District Commission and which was on hand on the date of the previous audit, had been deposited in October 1952 together with a balance of \$67.36 which was also due. This deposit was in accordance with the provisions of Chapter 32, Section 3, Subsection 6, Paragraph (c) of the Tercentenary Edition of the General Laws. It is understood that the Board will henceforth require reinstated employees to completely comply with this statute which reads in part as follows:

" . . . shall pay into the annuity savings fund of the system in one sum a make-up payment of an amount equal to the accumulated regular deductions withdrawn by him, together with regular interest to the date of his re-employment . . . "

Accounts Receivable: It was noted that the records indicate that outstanding accounts receivable arising from overpayments and totaling \$160.27 have remained unpaid since December 31, 1948. It is recommended that the balance be forwarded to the Department of the Attorney General for whatever action it deems necessary.

Position Schedule Bond: It was noted that the only position covered by bond was that of the executive secretary. At the present time the only employee handling funds is the senior bookkeeper, who maintains the cash book and also acts as custodian of monies until they are turned over to the State Treasurer. This employee is not bonded and it is suggested that the necessary action be taken to provide a bond.

Annual Statements of Individual Account Balances: It was noted that no notices of balances, etc. have been sent to the members of this retirement system for the years ended December 31, 1951 and December 31, 1952.

STATE TEACHERS COLLEGE AT FITCHBURG

REPORT NO. 53-132

General: The previous audit report included the following comments:

"General Ledger Not Posted: On the date of audit the general ledger was not completely posted beyond January 31, 1952, consequently no monthly financial reports had been prepared since that date. This situation was occasioned by the recent death of the principal clerk.

"Old Outstanding Accounts to be Sent to Attorney General: On date of audit it was noted that there were several outstanding accounts which were more than one year old. It is therefore recommended that the College officials review all accounts and refer those that are delinquent more than a reasonable time to the office of the Attorney General for collection or disposition.

"Quarters Register Not in Use: It was impossible to verify the income from the rental of apartments or rooms to employees because a quarters register, as prescribed by the Comptroller's Bureau regulations, had not yet been installed. It is therefore recommended that it be made part of the system without delay."

In connection with the foregoing it was noted that the general ledger and all financial records of the College were currently posted. Outstanding accounts receivable totaling \$158.20 were sent to the Attorney General for collection and the quarters register, as prescribed by the Comptroller's Bureau is now in operation, and appears to be properly functioning.

Advance Funds: It was noted that the balance of advance funds as recorded in the subsidiary accounts of the Budgetary Control Register were not in agreement with the advance funds control account in the general ledger as of May 25, 1953. This variance was found to have been occasioned by an expenditure in November 1952 for \$1.00 and another in April 1953 for \$4.27 not being reported on a return of advance schedule and consequently were not recorded on the subsidiary accounts of the Budgetary Control Register. It is recommended that these two folios be reconciled monthly.

Return of Advance Form: It was noted that Return of Advance Forms were not being compiled monthly. It is suggested that the instructions pertaining to advances, as appearing in the accounting manual issued by the Comptroller's Bureau, be complied with.

INDUSTRIAL SCHOOL FOR BOYS

REPORT NO. 53-133

Outstanding Accounts Receivable: Included with the outstanding accounts was a charge for milk and eggs in the amount of \$430.29 which was made in June 1952 and was, therefore, applicable to the 1952 fiscal year. This item which has been outstanding for more than one year and which is owed by another State institution was apparently overlooked by the bookkeeping office of that institution.

While this audit was in progress a duplicate invoice was rendered to the institution concerned and it is understood that an effort will be made to obtain a deficiency appropriation for the purpose of paying this item.

Reconciliation of Pay Roll Bank Account: In reconciling this bank account it was found necessary to add to the balance as shown on the bank statement the amount of \$2,691.72. This deficit in the bank account was traced to a difference between the amount deposited in the bank and the pay roll total for the week ending February 7, 1953, when the pay roll total was \$6,691.72, whereas only \$4,000.00 was deposited in the bank.

In this connection it is apparent that at the time of that deposit the advance money on hand was not sufficient to pay the entire pay roll and it was intended to correct the situation as soon as sufficient advance money was received. However, it was evidently

overlooked by the bookkeeping office. When it was called to the bookkeeper's attention a deposit was made on June 1, 1953, satisfactorily adjusting the matter.

Materials and Supplies Adjustments Not Approved, etc.: It was noted that individual adjustment items amounting to more than \$100.00 did not bear the approval of the Youth Service Board. This matter was called to the attention of the proper personnel and approvals in all instances questioned were obtained. It is understood that in future instances of this nature the necessary steps will be taken, in the proper sequence, in accordance with instructions in the Comptroller's Bureau Accounting Manual.

It was also noted that there were no adjustments made in any of the meat accounts because of shrinkage or waste during the audit period. Apparently meats are weighed only once at the storeroom, when received, and then tagged with the receiving weight to be issued at that particular weight.

It was further noted that adjustments of fuel made during the period of this examination were as follows:

| <u>Item</u> | <u>Weight</u> | <u>Value</u> |
|-------------|---------------|--------------|
| Coal | 72.22 tons | \$ 948 29 |
| Coke | 72.25 tons | 1,253 49 |

It would appear that these fuel adjustments were excessive for an institution of this size and type, particularly when the fact is considered that a substantial adjustment was made in the preceding year.

This matter was discussed with the assistant superintendent and he indicated that the adjustment was necessitated principally because fuel is frequently used at cottages, without formal requisitions being prepared.

It is, therefore, recommended that more care be exercised in this respect and that requisitions covering the use of all fuel be available for all issues.

Inmates' Fund - Cash Not Recorded: It was noted that there was \$8.53 on hand in cash which had not been recorded in the cash book. It was understood that this money represented cash found on the person of inmates who had been returned from escapes. A record is kept of all cash in their possession in these instances and if it is determined that the money properly belongs to them, it is deposited in their account through the inmates' fund otherwise it is returned to the rightful owners when they are identified. These three items had been on hand apparently since May and July of 1952.

It is, therefore, recommended that the circumstances relating to these remaining cases be reviewed. It is also recommended that this money and subsequent receipts of this nature be recorded in the cash book and credited to a separate account until such time as actual ownership is determined.

Inmates' Funds Not Transferred to the State Treasurer: It was noted that there were 6 accounts totaling \$3.80 which should have been transferred to the State Treasurer in accordance with Section 23A of Chapter 120 of the General Laws, as amended.

It is recommended that this amount be remitted to the State Treasurer. In the future a review should annually be made of all inmates' accounts so that the statute which stipulates that this money be paid to the State Treasurer may be complied with.

Inmates' Overdrawn Accounts: On date of audit there were 84 accounts totaling \$27.66 with overdrawn balances. The individual balances were for small amounts with the exception of one which was for \$10.00. Most of the accounts involved boys who have since left the jurisdiction of the Board.

In the past it has apparently been the practice to transfer money from a "miscellaneous" account to make up the deficits in these overdrawn accounts when necessary. This expediency has not been used, however, since November 1948.

This entire matter was discussed with the proper personnel and it is understood that a transfer will be made from the "miscellaneous" account to close out the small accounts in those instances where it is determined to be impossible to obtain refunds of the amounts overdrawn.

DEPARTMENT OF LABOR AND INDUSTRIES

GENERAL DEPARTMENT

REPORT NO. 53-134

Applications and Fees for Homework Permits: It was noted on June 1, 1953 that there were seven applications for renewals of permits, the fees for which totaling \$350.00 which had not been entered in the cash book. The applications showed dates ranging from April 30, 1953 to May 22, 1953. Apparently the fee is not entered in the cash book until certain investigations have been completed and then if the permit is not issued the check is returned to the applicant. It is suggested that all fees be entered in the cash book the day they are received and if subsequently a refund becomes necessary it be made on a refund schedule sent to the Comptroller's Bureau.

Painters Riggers - Examination Failures: Notification of such failure is made to the applicant by means of a duplicate copy serially numbered card. It was noted that through oversight these cards were not used between February 1, 1953 and June 1, 1953 during which period the cash book showed fifteen failures.

Alleged Shortage at Pittsfield Office: It was noted that on April 3, 1953 a check of the National Surety Corporation in the amount of \$270.00 was transmitted to the State Treasurer as income. This represented a recovery from that company under a bond of a clerk in the Pittsfield Office. From available data it would appear that this amount represented alleged shortages prior to October 17, 1952.

Apprentice Training: Agreements expiring June 30 are made annually between the Department and the Federal Government. These agreements provide for reimbursement of a portion of the salaries paid in the Division and of the traveling expenses of the persons concerned.

It was noted that on June 1, 1953 vouchers had not been submitted to the Federal Government for the months of April and May 1953 because a supplement to the 1953 contract was in the process of being negotiated through the Attorney General with the Federal Government. This renegotiation was due to the new Federal Act, Public Law #550 (Korean War Bill) and adjustments will be made from September 1952 on.

MASSACHUSETTS MARITIME ACADEMY

REPORT NO. 53-135

Cash: It was noted that the cash is now being balanced frequently, and was in balance on the date of the current audit. This condition is a definite improvement over that encountered on the opening dates of the past few examinations.

Accounts Receivable: It was noted that charges for out-of-state tuition for the months of December 1952 to May 1953, inclusive, had not yet been recorded on the books. It is suggested that items of this nature should always be currently entered.

Midshipmen's Board: There is no direct charge made by the Academy for board. In this connection, however, it was noted that reimbursement by the United States Government is made for rations of 150 midshipmen at the rate of 68.7 cents per day. Those midshipmen in excess of 150 and the so-called Nautical Cadets (students who cannot qualify physically for the United States Naval Reserve) pay no board, consequently, the expense of their board is borne entirely by the Commonwealth. It is again suggested that the Board of Commissioners give this problem consideration.

Clothing Inventory: An inventory of the clothing on hand, valued at \$3,010.32 was taken on June 1, 1953, and indicated an overage of \$289.61.

It was further noted that in conformance with a suggestion in the previous audit report the clothing inventory is now being taken four times each year.

Attention is also called to the fact that several clerical errors were noted in the computation of the selling prices of clothing in the purchase book.

Year Book Accounts: These accounts were not completely examined because they were not currently maintained. The present system, which is somewhat inadequate, does not provide means for satisfactory verification on receipts and should be revised to include this feature.

Athletic Board Account: It was noted that an Athletic Board, consisting of two officers and one midshipman, was established during the period under audit to supervise athletics, including their accounting records.

WRENTHAM STATE SCHOOL

REPORT NO. 53-136

Bookkeeping - General: It was noted in connection with this audit that the prescribed form of Accounts Receivable ledger is currently being used.

Cash on Deposit: The previous year's audit report commented on the fact that all funds of this institution were on deposit in a local bank and that the total of these funds was greatly out of proportion to the capital and surplus of that bank. In this connection it was noted that this institution now has on deposit more than \$100,000.00 with a large Boston bank.

Savings Accounts: The various institution funds on deposit in savings accounts in the local bank are currently receiving interest at the rate of only 1% per annum. On the date of audit the following fund balances were on deposit in savings accounts:

| | |
|---------------------------------------|--------------------|
| Patients' Funds | \$ 2,266 03 |
| Canteen | 456 13 |
| Special Gift Fund | 1,864 12 |
| Mary Cabot Briggs Fund | 2,034 08 |
| On Books of Account | <u>\$ 6,620 36</u> |
| Individual Patients' Savings Accounts | <u>67,956 07</u> |
| Total | <u>\$74,576 43</u> |

It is suggested that possibly these monies could be deposited in a bank or banks paying interest at higher rates. At present there are several savings banks throughout the Commonwealth paying substantially higher interest rates.

1952 Farm Report: It was noted that milk production for the year totaled 663,041 quarts, an average of 5,220.8 quarts per cow per year at a cost of production of \$.12016 per quart.

The egg production totaled 40,936.67 dozen, an average of 243.90 eggs per hen per year, at a production cost of \$.434 per dozen.

The production of pork totaled 67,796 pounds and was produced at a cost of \$.369 per pound.

During the 1952 calendar year 113 shoats died. The greatest toll was taken during the latter part of that year because of an epidemic of enteritis. Since then the swine are given anti-enteritis injections which have proven to be effective.

An epidemic of fowl typhoid was the cause of the death of the majority of the 545 hens which died during the year.

Special Gift Fund: In view of the increase in cash receipts of this fund it is recommended that a prenumbered receipts form be maintained in addition to the letter of acknowledgment now mailed. The original receipt should be sent to the donor and a duplicate should be retained so that it may be available in connection with annual audits.

PONDVILLE STATE HOSPITAL

REPORT NO. 53-137

Rental Income: The prior audit report suggested that certain steps be taken to improve the system of the recording data in connection with the rental of rooms. A card system is now in operation showing the room occupied, its occupant, the time of entry, the time of removal and the rate of charges. The housekeeper maintains a room register which is signed by the occupant at time of original entry. However, in order for the housekeeper to immediately know whether or not a particular room is occupied, a chart or record should be installed indicating each room by number and their occupancy status at all times. Such records should correspond to the card record maintained in the Treasurer's office. It was also noted that when rooms were rented for short periods sales slips were used to record the transactions. These slips, however, failed to indicate the room number. It is, therefore, recommended that this be done so that income received may be more readily verified.

Accounts Receivable: It was noted that an amount of \$995.00 is due from a patient, who is still at this institution, for board and care received since November 14, 1952. Prior to that date the hospital expenses incurred were paid for by the Blue Cross. It was learned that there was some question of liability because of the patient's claim for reimbursement for injury allegedly suffered while employed by the Commonwealth. There also appears to be a question of domicile as affecting the right of the patient to receive treatment in this State. It is, therefore, recommended that the Department of Public Health seek to resolve these questions so that a settlement may be reached as to this patient's liability.

It is also suggested that in these instances where patients are receiving Blue Cross benefits a separate ledger page be inserted in the accounts receivable ledger for the recording of charges covered by the Blue Cross as distinguished from those charges made directly on a "private" basis. This will facilitate the determination of amounts due from private patients when Blue Cross benefits cease.

Control of Purchases: It appears at the present time that adequate control over requisitions and purchase orders made out by this institution is not exercised by the steward who was recently appointed. This function is being performed by the institution treasurer because it apparently had been the practice during the term of employment of the prior steward. However, inasmuch as the steward orders materials and supplies it is, therefore, necessary that he have control over requisitions, purchase orders, and the budgetary control register which indicates the balance of allotment available for additional commitments. A review of the filing system further indicates that improvement is necessary in the manner of filing requisitions, unfilled purchase orders, and those orders which have been completed. It was learned, however, that steps will soon be initiated to revise the present system.

Income from Vending Machines: In order to properly account for all income received from vending machines certain changes should be instituted with regard to their collections. Contracts should be drawn indicating the percentage of income to be paid to the institution. The presence of a designated institution employee should be required when collections are made from the machines by the vendors' representatives. The current practice of making collections and the mere mailing of unverified commission checks is not adequate and does not prove whether the institution is receiving that to which it is entitled.

MASSACHUSETTS SCHOOL OF ART

REPORT NO. 53-138

Art School Associates, Inc.: Because the records of the Art School Associates, Inc., were not on a current basis on the date of this audit, it was impossible to make an audit of this activity.

In this connection it was noted that this organization employs a student on a part time basis as a bookkeeper and also engages the services of an outside accountant, at a total cost of \$1,576.20 for this particular fiscal period.

It certainly would appear that after paying the aforementioned charges the accounts of this activity should at all times be on a current basis.

WALTER E. FERNALD STATE SCHOOL

REPORT NO. 53-139

Farm Report: The farm report for the 1951 year was examined and several errors and inconsistencies were noted. These include the following:

1. Beginning inventories on the 1951 report did not agree with ending inventories on the 1950 report.
2. Herd sales for November 1951, totaling to \$2,667.05, were not shown in the farm report.
3. The Farm Products to the Storeroom and the Farm Production accounts in the general ledger were not in agreement with the comparable items in the annual farm report.

Because of the foregoing, this farm report appears to be of very little value. It is, therefore, recommended that the farm records and the annual farm report henceforth be checked more accurately.

Attention is also directed to the fact that although the 1952 farm report was not audited in connection with this examination, it was noted that the ending inventory figures in the 1951 report did not agree with opening inventory figures in that farm report.

Maintenance Charges: It was noted that the discrepancies noted in the previous audit report with respect to room rent charges and pay roll deductions on account of maintenance have since been corrected. It was also noted that charges against kitchen employees for one meal each day no longer appear on the "room" cards.

Federal Mental Health Grant: This Federal grant is used to pay a research worker. Formerly this grant was deposited in a special pay roll account in a local bank and disbursements were made from it directly by the institution treasurer. During this audit period, however, this account was closed and the balance was transferred to the State Treasurer. It is now handled through the State Treasurer Fund account.

Materials and Supplies: Adjustments through the Materials and Supplies account included two adjustments for coal which appeared to be excessive amounts. One adjustment was made in May 1952 for \$6,464.53 and the other in May 1953 for \$11,783.75. The reason given for these adjustments was because there was no facilities for weighing coal and that coal which was issued was necessarily estimated. It was noted that the coal weighing equipment has been repaired and henceforth adjustments in these accounts should be kept to a minimum.

STATE HOUSING BOARD AND LOCAL HOUSING AUTHORITIES

Audit of Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

"SECTION 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:-

(d) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

"SECTION 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947 is hereby repealed."

During the complete fiscal year ending June 30, 1953, the terms of the Act were fully complied with and every active local Authority, in a total of 92, was audited and a report issued.

In addition, seventeen other local Authorities were visited and were found to be inactive during the fiscal year and therefore required no audit.

One special audit was required during the fiscal year:

Framingham Housing Authority

General: Individual copies of audit reports for the State Housing Board and all local Housing Authorities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Chairman of the State Housing Board, and the Senators, Representatives and all interested city officials and members of local Housing Authorities.

Summary of Audits Completed: The following listed audits have been made since my last report to the legislature:

SCHEDULE OF HOUSING AUTHORITY AUDITS COMPLETED --- FISCAL YEAR 1952-1953

| | From | To | Page No. |
|------------------------------|----------------|----------------|-----------|
| State Housing Board | July 31, 1951 | June 30, 1952 | 190 - 195 |
| Emergency Housing Commission | Jan. 7, 1952 | Dec. 22, 1952 | - |
| LOCAL HOUSING AUTHORITIES: | | | |
| Agawam | June 30, 1951 | June 30, 1952 | 201 - 203 |
| Amesbury | Oct. 31, 1951 | Sept. 30, 1952 | 223 - 224 |
| Andover | July 31, 1951 | Sept. 30, 1952 | 219 - 220 |
| Arlington | Feb. 29, 1952 | Feb. 28, 1953 | 249 - 250 |
| Athol | Feb. 29, 1952 | Apr. 30, 1953 | 272 - 273 |
| Attleboro | Aug. 31, 1951 | June 30, 1952 | 200 - 201 |
| Barnstable | Apr. 30, 1952 | Apr. 30, 1953 | 277 - 278 |
| Bedford | June 30, 1951 | Sept. 30, 1952 | 218 - 219 |
| Belmont | Apr. 30, 1952 | Mar. 31, 1953 | 273 |
| Beverly | June 30, 1951 | Aug. 31, 1952 | 214 - 216 |
| Boston | Apr. 30, 1952 | Mar. 31, 1953 | 251 - 255 |
| Braintree | Jan. 31, 1952 | Apr. 30, 1953 | 277 |
| Brockton | Oct. 31, 1951 | Aug. 31, 1952 | 217 |
| Brookline | Feb. 29, 1952 | Apr. 30, 1953 | 278 - 279 |
| Cambridge | June 30, 1951 | June 30, 1952 | 196 - 199 |
| Canton | Feb. 29, 1952 | Mar. 31, 1953 | 261 - 263 |
| Chelsea | Sept. 30, 1951 | July 31, 1952 | 206 - 211 |
| Chicopee | Mar. 31, 1952 | Apr. 30, 1953 | 273 - 274 |
| Clinton | Aug. 31, 1951 | June 30, 1952 | 203 - 204 |
| Dalton | Feb. 29, 1952 | Mar. 31, 1953 | 269 - 271 |
| Dedham | Jan. 31, 1952 | Mar. 31, 1953 | 268 |
| Easthampton | May 31, 1952 | May 31, 1953 | 283 - 284 |
| Everett | Oct. 31, 1951 | Sept. 30, 1952 | 218 |
| Fall River | Jan. 31, 1952 | Nov. 30, 1952 | 235 - 236 |
| Falmouth | May 31, 1952 | May 31, 1953 | 285 |
| Fitchburg | June 30, 1951 | June 30, 1952 | 203 |
| Framingham | Jan. 31, 1952 | Jan. 31, 1953 | 241 - 242 |
| Special Cash Audit | | May 18, 1953 | 277 |
| Franklin | Apr. 30, 1952 | May 31, 1953 | 282 |
| Gardner | Apr. 30, 1952 | Mar. 31, 1953 | 267 - 268 |
| Gloucester | Sept. 30, 1951 | Sept. 30, 1952 | 222 - 223 |
| Grafton | July 31, 1951 | Aug. 31, 1952 | 212 - 213 |
| Greenfield | Dec. 31, 1951 | Feb. 28, 1953 | 248 - 249 |
| Haverhill | Dec. 31, 1951 | Nov. 30, 1952 | 233 - 235 |
| Holyoke | Apr. 30, 1952 | May 31, 1953 | 279 - 280 |
| Hull | Mar. 31, 1952 | Apr. 30, 1953 | 271 - 272 |
| Ipswich | Feb. 29, 1952 | May 31, 1953 | 282 - 283 |
| Lawrence | Jan. 31, 1952 | Oct. 31, 1952 | 230 - 231 |
| Leominster | Feb. 29, 1952 | Mar. 31, 1953 | 260 |
| Lowell | Mar. 31, 1952 | Mar. 31, 1953 | 265 - 267 |
| Lynn | May 31, 1952 | Dec. 31, 1952 | 239 - 240 |
| Malden | Mar. 31, 1952 | Mar. 31, 1953 | 269 |
| Mansfield | Apr. 30, 1952 | Mar. 31, 1953 | 271 |
| Marblehead | Dec. 31, 1951 | Dec. 31, 1952 | 236 - 237 |
| Marlborough | Dec. 1, 1952 | Apr. 30, 1953 | 285 |
| Mattapoisett | Mar. 31, 1952 | Feb. 28, 1953 | 245 |
| Medford | Feb. 29, 1952 | Apr. 30, 1953 | 274 - 275 |
| Methuen | Feb. 29, 1952 | Jan. 31, 1953 | 242 - 244 |
| Middleborough | Sept. 30, 1951 | July 31, 1952 | 211 - 212 |
| Milford | Sept. 30, 1951 | Aug. 31, 1952 | 216 |
| Millbury | Mar. 31, 1952 | May 31, 1953 | 278 |
| Montague | Nov. 30, 1951 | Dec. 31, 1952 | 240 - 241 |
| Nahant | Mar. 31, 1952 | May 31, 1953 | 280 - 281 |
| Nantucket | Sept. 30, 1951 | Sept. 30, 1952 | 216 - 217 |
| Natick | July 31, 1951 | Aug. 31, 1952 | 214 |
| Needham | Mar. 31, 1952 | Apr. 30, 1953 | 275 - 277 |
| New Bedford | Mar. 31, 1952 | Jan. 31, 1953 | 244 - 245 |
| Newburyport | Apr. 30, 1952 | Feb. 28, 1953 | 245 - 246 |
| North Adams | Jan. 31, 1952 | Mar. 31, 1953 | 259 - 260 |
| Northampton | Nov. 30, 1951 | Jan. 31, 1953 | 246 - 247 |
| North Andover | Mar. 31, 1952 | May 31, 1953 | 284 - 285 |
| North Attleborough | May 31, 1952 | Mar. 31, 1953 | 263 - 265 |
| Northbridge | Mar. 31, 1952 | Feb. 28, 1953 | 255 |
| Norwood | Apr. 30, 1952 | May 31, 1953 | 284 |

| | From | To | Page No. |
|----------------------------|----------------|----------------|-------------|
| LOCAL HOUSING AUTHORITIES: | | | |
| (Continued): | | | |
| Peabody | Nov. 30, 1951 | Oct. 31, 1952 | 233 |
| Pittsfield | Jan. 31, 1952 | Mar. 31, 1953 | 260 - 261 |
| Plymouth | Apr. 30, 1952 | Mar. 31, 1953 | 274 |
| Quincy | Aug. 31, 1951 | July 31, 1952 | 205 - 206 |
| Revere | Aug. 31, 1951 | Oct. 31, 1952 | 226 - 227 |
| Rockport | Mar. 31, 1952 | May 31, 1953 | 281 - 282 |
| Salem | Dec. 31, 1951 | June 30, 1952 | 199 - 200 |
| Somerville | Dec. 1, 1951 | June 30, 1952 | 195 - 196 |
| Springfield | Aug. 31, 1951 | Oct. 31, 1952 | 227 - 229 |
| Stoneham | Oct. 31, 1951 | Oct. 31, 1952 | 231 - 232 |
| Stoughton | Sept. 30, 1951 | Aug. 31, 1952 | 213 - 214 |
| Swampscott | Oct. 31, 1951 | Sept. 30, 1952 | 220 - 222 |
| Taunton | Dec. 31, 1951 | Oct. 31, 1952 | 224 - 226 |
| Uxbridge | Feb. 29, 1952 | Feb. 28, 1953 | 255 |
| Walpole | Oct. 31, 1951 | Oct. 31, 1952 | 232 - 233 |
| Waltham | Feb. 29, 1952 | May 31, 1953 | 285 - 286 |
| Watertown | Apr. 30, 1952 | Feb. 28, 1953 | 255 - 259 |
| Webster | Mar. 31, 1952 | May 31, 1953 | 283 |
| Wellesley | Dec. 31, 1951 | Dec. 31, 1952 | 237 - 239 |
| Westborough | Mar. 31, 1952 | Apr. 30, 1953 | 274 |
| Westfield | May 31, 1952 | Apr. 30, 1953 | 275 |
| West Springfield | July 31, 1951 | July 31, 1952 | 204 |
| Weymouth | Feb. 29, 1952 | May 31, 1953 | - |
| Wilmington | Mar. 31, 1952 | Apr. 30, 1953 | 278 |
| Winthrop | Dec. 31, 1951 | Feb. 28, 1953 | 250 - 251 |
| Woburn | Jan. 31, 1952 | Jan. 31, 1953 | 247 - 248 |
| Worcester | Nov. 30, 1951 | Oct. 31, 1952 | 229 - 230 |

The following comments, exceptions and recommendations were included in the reports issued in connection with these examinations.

STATE HOUSING BOARD

REPORT NO. 53-H-1

Chapter 372 - Projects Not Certified: At the present time there is only one project authorized under Chapter 372 which has not yet been certified. This project and the reason given for this non-certification follows:

Boston - Morton Street - 108 Units: Construction on this project has not yet begun. However, the plans have been prepared and it is anticipated that the construction will soon be initiated. It was noted that an amount to cover a possible subsidy payment to this project has been included in the 1953 budget.

Chapter 372 - Sales of Houses: Under Chapter 372, when houses are sold by a local Authority the funds received are subsequently turned over to the Treasurer of the city or town concerned.

To date of audit the following sales of houses were made to respective veteran occupants with the approval of the State Housing Board:

| <u>City or Town</u> | <u>No. of Houses</u> | <u>Total Received</u> |
|---------------------|----------------------|-----------------------|
| Amherst | 20 | \$179,600 00 |
| Concord | 3 | 21,700 00 |

It is understood that a number of other sales are pending.

Title V and Temporary Dwellings: In addition to those projects upon which subsidy payments are made by the Commonwealth, the following projects are operated under the supervision of the State Housing Board, under authority of Chapter 372 of the Acts of 1946.

Title V: These projects were originally erected through the co-operation and under the control of the Federal Government but were later transferred to the respective cities and towns. Any surplus realized from operations is turned over to the local city or town treasurer. As of June 30, 1952, there was a total of 2,614 units in this category.

Temporary Dwellings: Units described as Temporary Dwellings are also covered by Chapter 372 and are likewise supervised by the State Housing Board. These units are generally owned by the cities and towns and include Municipal Buildings converted for occupancy. The net income derived from such projects is turned over to the local government concerned. As of June 30, 1952, there was a total of 77 such units throughout the Commonwealth.

Subsidy Payments - Chapter 200: The first subsidy payments to local housing authorities were made during the 1951 fiscal year in amounts totaling \$591,625.00. In the next fiscal year subsidy payments of \$1,562,445.57 were made, a total to date of audit of \$2,154,070.57. It is also estimated that the 1953 subsidy payments will total approximately \$2,000,000.00, and when all present projects are completed, annual payments from the Veterans' Fund will probably total \$4,750,000.00.

It is quite probable that the maximum amount of subsidy payable will never be actually paid, since it is expected that the surpluses arising from the operations of the more profitable projects will be used for the purpose of reducing the Commonwealth's Contribution for these projects.

The previous audit report commented on the fact that under the terms of the Contracts for Financial Assistance the entire subsidy payment is paid to the Fiscal Agent of the Authority five months and fifteen days after the beginning of each fiscal year, even though only 15% of the subsidy payment is needed by the Agent at that time. The previous report further stated that 85% of this payment is held by this Agent for six months and fifteen days, and directed attention to the fact that this money is not earning interest nor has it been invested where it may accrue interest to the benefit of the local Authority or the Commonwealth.

The methods employed in the making of these subsidy payments has also been directed to the attention of the State Housing Board in several of the audit reports issued by the Department of the State Auditor as a result of examinations made of local housing authorities. As a result, certain changes have been instituted.

In this connection attention is called to the fact that beginning with the bond issue of July 1, 1952, the State Treasurer will make the payments of the annual subsidy as follows: 25% five months after the bond date, and the remaining 75% six months thereafter.

This is a most desirable amendment to the Contract for Financial Assistance, inasmuch as it permits Commonwealth funds to remain active until such time as they are actually required.

However, on all of the projects which went into Permanent Financing prior to July 1, 1952, the former method of paying 100% of the subsidy five months and fifteen days after the date of issue will continue. The Attorney General was requested to furnish an opinion as to the legality of changing these subsidy payments by amendment to those Contracts for Financial Assistance in effect prior to July 1, 1952. To date of audit, no such opinion in this direction has been received.

Progress of Chapter 200 Projects: The status of the various Chapter 200 Projects as of June 30, 1952 was as follows:

| | |
|---|--------|
| Number of Communities with Projects in Construction Stage | 42 |
| Number of Units in Projects in Construction Stage | 9,302 |
| Number of Units Completed for Occupancy | 13,210 |

Administration Fund Agreements: An examination of these agreements indicated that certain projects have not been covered by agreements. Therefore, the funds collected for these projects are not being deposited in banks which have been approved by the Chairman of the State Housing Board. It is suggested that the necessary steps be taken to correct these instances.

Issue of Bonds under Permanent Financing: As of June 30, 1952, 83 projects had entered into Permanent Financing with bond issues totaling \$72,026,000.00. This amount included 7 different issues made on a serial basis and maturing over a period of forty years. These issues follow:

| <u>Date of Issue</u> | <u>Amount</u> | <u>Rate of Interest</u> | <u>Maturities</u> |
|----------------------|------------------------|-------------------------|-------------------|
| Oct. 1, 1950 | \$10,109,000 00 | 1 3/4% | Oct. 1, 1951/90 |
| Jan. 1, 1951 | 13,556,000 00 | 1 3/4% | Jan. 1, 1951/91 |
| Apr. 1, 1951 | 9,251,000 00 | 1 7/8% | Apr. 1, 1952/91 |
| July 1, 1951 | 7,789,000 00 | 2 1/8% | July 1, 1952/91 |
| Oct. 1, 1951 | 13,264,000 00 | 2% | Oct. 1, 1952/91 |
| Jan. 1, 1952 | 10,357,000 00 | 2 1/4% | Jan. 1, 1952/92 |
| Apr. 1, 1952 | 7,700,000 00 | 2 1/8% | Apr. 1, 1952/92 |
| | <u>\$72,026,000 00</u> | | |

On July 1, 1952 another issue amounting to \$10,722,000.00 was sold. These bonds will bear interest at the rate of 2 1/4%.

It was further noted that no bids were received on a bond offering on December 5, 1952, because under the terms of the Notice of Sale, the maximum interest to be paid could not exceed 2 1/2% per annum. This rate was too low to attract investors.

Although the bonds which have been issued are in the names of the various local Housing Authorities, they are nevertheless guaranteed as to payments of interest and principal by the Commonwealth of Massachusetts and are therefore a definite contingent liability of the Commonwealth.

In this connection attention is called to the fact that bonds issued directly by the State Treasurer, on dates comparable with those on which bonds were issued by the local Housing Authorities, showed a rate of interest which averaged 1/2% below the lowest bids on housing bonds.

Inasmuch as it will undoubtedly be necessary to issue at least \$142,000,000.00 more of such bonds, it is suggested that serious consideration be given to a revision of existing legislation to provide that further borrowings be made directly by the Commonwealth in order to take full advantage of the superior credit of the state.

Attention is also directed to the following schedule which is employed in computing the fee paid to the bond counsel in connection with the issuing of bonds:

| <u>Amount of Issue</u> | <u>Rate per \$1,000.00</u> |
|--------------------------------|----------------------------|
| Up to \$1,000,000 00 | \$.75 Minimum of |
| \$1,000,000 00 to 2,000,000 00 | .75 \$350.00 |
| 2,000,000 00 to 3,000,000 00 | .60 |
| 3,000,000 00 to 5,000,000 00 | .50 |
| Over 5,000,000 00* | .40 |

* As of audit date no project has issued bonds in excess of \$5,000,000.00. This rate is a proposed one.

It was noted that bond counsel fees of approximately \$52,000.00 have been paid on the bond issues now outstanding, and that the total of all such fees paid to date of audit on all issues of temporary notes or bonds amounted to over \$200,000.00. It was further noted that the legality of the borrowings of the local housing authorities was also checked by two Assistant Attorney Generals assigned to the office of the State Housing Board.

Attention is directed to the fact that the legal opinion on the borrowings of the Commonwealth is rendered by the Attorney General; therefore, no such bond counsel fees must be paid on these loans.

It is suggested that consideration be given to the possibility of the Attorney General rendering the legal opinion on the borrowings of the local housing authorities and thus eliminate the substantial fees which must be paid for this purpose.

Timing of Bond Issues: An examination of the projects to be permanently financed as of July 1, 1952 indicated that several have been occupied for one year and a half and longer. It is interesting to note that during this period that these projects were occupied the interest rate on bonds issued for other projects in permanent financing has increased from 1 3/4% to 2 1/4% and a further increase to 2.433% resulted on the bond issue of October 1, 1952. It is, therefore, obvious that the delay in entering into permanent financing has resulted in higher interest costs which will be borne by these projects.

In view of the fact that the interest rates on short-term loans are approximately one per cent less than the rates on long-term loans, it is difficult to understand why these projects have been financed on a permanent basis at times when the interest rates are higher because of the weakening of long-term bonds. It would, therefore, appear that the State Housing Board is not too much concerned with the economic consideration involved in these interest rates to be paid on long-term borrowings. This interest rate is a vital factor in the operations of the local projects, since the rents charged and the subsidy payments from the Commonwealth are affected by any increased charges which must be borne by the local projects.

It is evident that some consideration must be given to the present and probably future levels of interest rates. Short-term borrowing programs might be advantageously combined with long-term borrowings pending the development of a more favorable opportunity for long-period borrowings. The utilization of the short-term market would relieve the local authorities of the burden of high interest charges.

Accounts Receivable: It was noted that certain charges in the amount of \$1,411.34 were made to the Watertown Housing Authority for the services of a construction adviser for the first three months in 1952. The Authority, however, refused to pay this amount because it was contended that the services indicated had never actually been rendered. It was subsequently agreed to pay one half of the amount as charged.

It was also noted that the pay roll records of the State Housing Board, which had originally indicated that this consultant had worked the entire first quarter of 1952, were subsequently changed to reflect charges to sick leave previously accumulated for three of the weeks billed. No accounting, however, was made of the charges for the remaining three and one half weeks.

It was further noted that this consultant had also received his salary for the first four weeks of April 1952 for services supposedly rendered to this Authority, but the State Housing Board made no attempt to bill the Authority for these services. In this latter connection the pay roll records were again altered so that three weeks were charged to vacation time and one week to sick leave.

The previous audit report of this Department commented upon the laxity in handling of a similar affair.

It is suggested that in the future, in like cases, if after investigation it develops that the individual did not perform the services for which he was paid in the first instance by the Commonwealth, steps should be taken to compel him to make restitution

for the amounts so overpaid; and if investigation proves that he did perform the services for which he was paid, the Board should insist on reimbursement from the local Authority.

It is further recommended that the State Housing Board give some consideration to the devising of a procedure so as to ascertain whether or not the consultants are actually rendering services as charged to the local authorities.

Operating Reserves: In several audit reports of local housing authorities by the Department of the State Auditor there have appeared comments concerning the amounts which the State Housing Board directed be set up as operating reserves at the end of the initial operating period of the various projects. These reports have indicated that the amounts which are originally established in these reserves are in most instances not based upon any predetermined formula; but rather upon the amount of profits remaining from the initial operating period.

While this examination was in progress, it was noted that the State Housing Board directed that there be transferred to the operating reserve the entire surplus of the first fiscal year of the projects included in the first group entering into Permanent Financing. It was further noted that the major portion of the surpluses of the first fiscal year of the second and third groups entering Permanent Financing was likewise transferred.

The Management program adopted by the authorities for the projects entering Permanent Financing stipulates that this operating reserve shall not exceed \$300.00 per unit, and also provides that \$60.00 per unit shall be charged to operations each year until such maximum is reached. Because of the arbitrary method employed by the State Housing Board in its disposition of these surpluses, it was noted that several of the projects which are in Permanent Financing have already reached the maximum amount in operating reserve which it was originally intended to be established.

There appears to be no reason for this policy of the State Housing Board in using the surpluses of the projects for the unnecessary acceleration of this accumulation of these reserves. It would have been more logical economically to have used the surpluses for the purposes of effecting a reduction in either the Commonwealth's subsidy and/or the project rents.

Rent Delinquencies - Chapter 200 Projects: Because of the increasing amount of rent delinquencies in many of the local housing projects, the Chairman of the State Housing Board has inaugurated a plan to assist the local authorities in collecting old accounts. At present three representatives of the State Housing Board are visiting local housing authorities who have rent delinquency problems and are interviewing debtor tenants and effecting agreements which make arrangements to pay the outstanding balances. Tenants who either fail to appear for an interview or fail to abide by their agreements may possibly be evicted on the advice of representatives of the State Housing Board, and the local Authority must comply with any recommendation in this regard.

Expenditures: An analysis of appropriated expenditures indicated that there had been purchased a movie projector and screen which were not included in the appropriation requests, at a cost of \$781.99. It is understood that this equipment will be used to show movies of housing projects to various organizations.

In this connection it was noted that there was purchased moving picture film so that employees could take the pictures of the projects on personally owned cameras, which had been loaned without charge. It was found that at least thirty-eight rolls of film had been purchased without conforming to the State Purchasing Bureau procedures. Apparently this board paid excessive prices for films purchased as is indicated by the copy of the letter, which follows, from the State Purchasing Agent.

Commonwealth of Massachusetts
Commission on Administration
and Finance
State House
Boston, 33, Massachusetts
February 14, 1952

Honorable William C. Geary, Chairman
State Housing Board
18 Tremont Street
Boston, 8, Massachusetts

Dear Sir:

With reference to your letter of February 4 in which you request that I approve certain departmental purchase orders for motion picture film, you are advised that, because of your promise that all future orders for film will be made through this Bureau, I am reluctantly approving the previous purchases. Where you paid \$6.45 for film we could have bought it for \$5.15.

The departmental orders are returned herewith.

Very truly yours,

GJC:MMC
Enc.

G. J. Cronin
Commissioner and Purchasing Agent

Insurance Coverage: All insurance required by local housing authorities is provided by so-called "Blanket" policies, which are arranged through the State Housing Board.

Each project is protected by five different "Blanket" policies. These include fire and rent coverage, property damage, public liability, monies and securities, and a position bond. The face values and maturities of these policies follow:

| <u>Kind of Insurance</u> | <u>Face Value</u> | <u>Maturity Date</u> |
|--------------------------------|---------------------------|--|
| Fire and Rents Insurance | 90% of Value | March 1, 1955 |
| Property Damage | \$25,000 00 | 3 years from date of issue to each project |
| Comprehensive Public Liability | \$100,000 00/\$300,000 00 | 3 years from date of issue to each project |
| Monies and Securities | \$25,000 00 | December 1, 1952 |
| Position Bond | \$10,000 00 | Continuous |

All the projects are covered for fire from the date the project is accepted for occupancy regardless of the date of issuance of the insurance certificate. When the local Authority accepts a project in part, this part is covered by the policy, and the premium is held back until the project is completed. A valuation is then made by the State Housing Board and premiums are paid on this valuation.

Prior to acceptance by the local authorities the contractors assume all liability.

Lowell Homesteads: Chapter 143 of the Acts of 1909 established the first law dealing with public housing in Massachusetts and authorized a special commission known as the Homestead Commission to investigate the expediency of the Commonwealth acquiring or opening for settlement land in country districts in order to relieve congested tenement districts. Chapter 607 of the Acts of 1911 made this Commission a permanent state agency. As a result of its continued investigations the Legislature appropriated \$50,000.00 in 1917 for an experimental project in the City of Lowell which was called the Lowell Homesteads. The cost of that project was as follows:

| | | |
|---|-----------------|--------------------|
| Cost of Project: | | |
| 7 Acres of Land including a House | \$12,500 00 | |
| Cost of Erecting 12 Houses | 28,128 77 | |
| Improvements | <u>2,626 77</u> | \$43,255 54 |
| Unexpended Balance Returned to State Treasury | | <u>6,744 46</u> |
| | | <u>\$50,000 00</u> |

To June 30, 1952 the results of this project's operations were as follows:

| | |
|---|--------------------|
| Income from the Sale of Houses and Lots | \$53,237 92 |
| Total Project Cost | <u>(43,255 54)</u> |
| | <u>\$9,982 38</u> |

The total net earnings of \$9,982.38 represented the utilization of approximately 2.2 acres of land. At the present time approximately 4.8 acres of the original land

purchased, with an assessed value of \$8,363.52 remains in the possession of the Commonwealth.

It was noted that no other project was undertaken during the existence of the Homestead Commission which was abolished in 1919.

Temporary Financing: As previously noted in this report this department recommended the utilization of temporary borrowings rather than permanent financing because of the lower interest rates which could be obtained.

Just prior to the issue of this report, it was noted that notes were issued at an interest rate of .8479% for the financing of certain projects on which there had been no bidders on bonds previously offered because of the limitation of the interest rate to 2 1/2%. The saving thus effected will amount to approximately \$134,000.00 in the first year's financing alone.

This saving clearly demonstrates that short-term borrowings should be utilized at this particular time, and it is recommended that this temporary financing be continued until such time as the long-term interest rates justify permanent financing.

SOMERVILLE HOUSING AUTHORITY

REPORT NO. 53-H-2

Project 200-1-Closing Entries: An examination of the closing entries submitted to the Authority by the State Housing Board revealed that Accounts Payable in the amount of \$40,080.45 and an Operating Reserve of \$32,000.00 were set up.

An analysis of the estimated liabilities indicated that an amount of approximately \$15,000.00 would have been adequate. In this connection it was noted that among the amounts included in the computation of the figure of \$40,080.45 were items which were properly chargeable to the Operating Reserve and the Operating Improvements accounts and payable from current income.

It was further noted that a liability in the amount of \$17,414.05 was set up for this project's share of the cost of the Administration Building. An analysis of this item revealed that as of June 30, 1952 there was \$14,687.88 due to the contractor for the construction of this building. Since the major portion of this cost is to be paid for out of the funds of Project 200-2, it is readily apparent that the inflation of this liability alone has provided the Authority with an additional reserve of approximately \$10,000.00 with a corresponding increase in the development cost and the Commonwealth's subsidy.

The maximum Operating Reserve for this project is to be \$64,800.00 and is established primarily to absorb any unusual items of repairs, maintenance and replacement. Since this project has been completely occupied for approximately two years, it would appear that there should have been some indication of the amount really needed for such items. As there has been no indication of any great need, it would seem that the establishing of an Operating Reserve of \$32,000.00 at the time of permanent financing was excessive, and as a result the development costs and the Commonwealth's subsidy have been increased.

Project 200-2 - Credit from Edison Electric Illuminating Company of Boston: Attention is again called to the fact that the matter of a refund from this concern in the amount of \$9,600.00, which was discussed in two previous audit reports, is still pending. This item represents a credit for the installation of 240 electric stoves at \$40.00 per unit.

It is understood that this payment is being contested because the electrical contractor contends it is due to him rather than to the Authority.

At a meeting of the Authority held on December 19, 1951, it was unanimously voted that the check for this credit be forthwith remitted to the Authority.

In reference to this controversy, it was noted that an individual member of this Authority under date of June 29, 1950, wrote the Edison Company authorizing the payment of this sum to the electric sub-contractor. Under date of December 12, 1951, however, a letter was forwarded rescinding the letter of June 29, 1950 and asking that this sum be paid to the Somerville Housing Authority.

Project 200-2 - Loan Credit: It was noted that a credit was due from the general contractor for loan charged under the original contract, since this contract was changed so as to eliminate the use of loan. This matter is before the State Housing Board for a decision, because the credit offered is considered by the Authority to be inadequate.

Project 200-2 - Construction of Project: A visit was made to this site to note the general condition of the project and to further check on the conditions referred to in the

previous audit report. Although the curvature in the foundation wall of Building Four has been corrected, very little has been done to remedy the other defects.

Special attention is called to the ceilings which look more like a patch-job than new construction. Paint is still peeling from many of these ceilings and practically none of them have the smooth surface called for in the specifications under the section "Finish Surfaces".

In view of the large sums of money expended for the services of Architects, Construction Advisers of the State Housing Board, and the local Authority's Clerk of the Works, it is difficult to understand how these conditions arose in the first place and it is more difficult to understand why these conditions have not been corrected.

As of date of audit, the Authority is withholding \$238,039.92 from the general contractor in an effort to have him correct the deficiencies in the construction of this project.

As stated in the previous audit report, this project proposes a high maintenance cost if the work required at present to put the project in the condition called for in the specifications is not done before final acceptance.

CAMBRIDGE HOUSING AUTHORITY

REPORT NO. 53-H-3

Temporary Construction Projects - Tenants' Accounts Receivable: The examination of the activity in this account disclosed several cancellations of rent charges. These particular cancellations concerned rent charges for several months and were abolished, as indicated by a notation, because these tenants had vacated their apartments prior to the dates of the rent charges for the occupancy of the premises. Because of the condition of the records, the dates of vacating could not be verified. It is clearly evident that the records as maintained were inadequate and provided no control whatsoever over the rental income due to the Authority.

On the date of audit, the records reflected a balance of \$4,861.63 due from tenants; however, this balance could not be verified because of the unavailability of the addresses of the vacated tenants. These accounts have been turned over to an attorney for collection, but there appears to be little hope of realization of any great portion of the amount due. Since these projects have been demolished, it is suggested that the balances due be written off and the Authority's account with the City of Cambridge be closed. If any future collections on these accounts should be made, they could be remitted directly to the City of Cambridge.

Chapter 372 - Permanent Construction: The balance sheet of this project reflects an Account Receivable from the Cambridge Housing Authority of \$400.00. This amount represents trim which is held in Inventory and charged off as used. Inasmuch as the Chapter 200 projects will eventually use all this material, it is felt that this account should not appear on the books of the Chapter 372 project. Since this Authority has already set up a Material and Supplies Inventory account in the Revolving Fund for the use of all the projects, it is suggested that this account be transferred thereto.

Revolving Funds - Pay Roll and General: The analysis of the Revolving Funds disclosed that the accounts for the Federal Projects consistently reflected large accounts receivable indicating that the advances secured were not sufficient to cover the running expenditures chargeable to those projects. This condition indicates that the projects other than the Federal had to make advances in excess of their proportionate share. Since practically all the projects under State supervision will soon enter permanent financing with the consequence of restricted cash accounts, it is recommended that the Authority adjust the advances of the projects to this fund so that they correspond with the expenditures for the projects.

The distribution of the expenditures each month, while totaled and analyzed, was not isolated as to cash and journal items. The consolidation of the cash and journal items makes it necessary to break down each month's entries to effect reconciliations. It is suggested that individual analyses of the cash and journal items be prepared in order to simplify the reconciliation of the accounts. It was noted that incorrect advances were reflected on Project 200-2 Administration and Development accounts. These variations were adjusted during the course of the audit.

Project 200-1

Expenses over Budget Estimate: The operating statement (Schedule XV) showing the comparison of actual and budgeted expenditures revealed that the charges to the

Repairs, Maintenance and Replacements account were \$4,623.71 in excess of the amount estimated. These excess charges were mainly due to the hot-topping of the project area, the construction of a fence and the pay roll charges incidental thereto.

Because of these excessive charges, this project reflected a loss of \$4,153.13 for the fiscal year ending June 30, 1952. In this connection, it was noted that the State Housing Board advised the Authority to charge this loss to the Operating Reserve.

It was further noted that the original budget had not been revised. It is suggested that if the same situation occurs in the future, the Authority submit a revised budget to the State Housing Board for its approval.

Project 200-2

Development Accounts: An analysis of the development accounts, and the test checks made, indicated that the following items had been incorrectly accounted for:

| | |
|---|-------------------|
| 1. A reimbursement to the Revolving Fund which should have been disbursed by the Administration Fund had been disbursed by the Development Fund | \$ 222 86 |
| 2. Funds which were credited to the Administration Fund but which should have been credited to the Development Fund | 171 20 |
| 3. This amount represents an insurance adjustment which should have been transferred to the Development Fund | 843 92 |
| 4. This amount represents an Advance to the Revolving Fund - Pay Roll account. Since it is used for Administration purposes, it should be reflected in the Administration account | 1,144 45 |
| Due Development from Administration | <u>\$2,382 43</u> |

These matters were brought to the attention of the accountant and adjusting entries were made prior to the close of the audit.

Accounts Payable - Development: It was noted that the cash balance of the Development Fund will be insufficient to pay the Accounts Payable of record as of June 30, 1952. It is also expected that the liabilities will be further increased by approximately \$700.00 because of change orders which were not set up at the time of entrance into permanent financing and, therefore, were not provided for. As a result, the Accounts Payable - Development will be approximately \$2,500.00 in excess of the cash available for the liquidation of these liabilities.

It appears that it will be necessary for some transfer of cash to be made by the Administration Fund in order that the Development Fund liquidate the liabilities applicable thereto.

Surplus Account - Adjustment: An analysis of this account, and the clearance of items applying thereto, disclosed an error of \$.20 which was offset by a corresponding error in the Accounts Receivable - Sundry account.

Although the amount is insignificant, attention is directed to this error because it would not have occurred if the debit and credit columns of this account were totaled. The present policy of handling transactions within this account is to merely change the balance column after a debit or credit entry without totaling the individual columns. It is suggested that in the future the correct accounting procedure of adding all columns be followed.

Project 200-4

Income Accounts: An analysis of the income accounts disclosed that a few items which had been credited to the income accounts should have been applied as a reduction of expenses.

Tenants' Accounts Receivable: The examination of the amounts due from tenants indicated that the balance of the Tenants' Accounts Receivable account included \$1,031.39 which was due from tenants who are no longer living in the project. Verification notices were sent to these sixteen former tenants, but only one was returned and it was unsigned.

These accounts have been turned over to an attorney for collection, but it is extremely doubtful if any such collection will be made. It is recommended that the worthless accounts be written off and charged to the Reserve for Collection Losses.

In this manner the Tenants' Accounts Receivable will be reflected on the records at their realizable value.

Contract Award: An examination of the bids received for the contracts awarded during the audit period revealed that one of the contracts was not awarded to the lowest bidder. The two bid proposals received follow:

| <u>Bidder</u> | <u>Contract Price</u> | | <u>Description</u> |
|---------------|-----------------------|--------------|--|
| | <u>Per Montl.</u> | <u>Total</u> | |
| Company A | \$160 00 | \$1,920 00 | Complete maintenance of four elevators |
| Company B | 237 00 | 2,844 00 | |

This contract was awarded to Company B by the unanimous vote of the members of the Authority even though its bid proposal was approximately 50% higher than that of Company A. It was further noted that this award was approved by the State Housing Board.

The reasons advanced for not accepting the proposal of the low bidder follow:

1. The elevators were originally purchased from Company B.
2. The Authority was of the opinion that this Company was the better equipped and would render more adequate service.

Project 200-5

Amortization of Note Premium: The examination of the Premium on Notes account disclosed that an error of \$1,000.00 had been made in the distribution of the premium over the life of the notes. This error was the result of an incorrect computation of the premium applicable to the first and second quarterly periods of amortization.

The above error was brought to the attention of the accountant during the course of the audit, and the necessary adjustment of the development costs was made.

Project 200-6

Amortization of Note Premium: An analysis of the amortization of the premium received on the issue of the temporary notes revealed that the Premium on Notes account was overstated by \$1,014.72 because of an incorrect basis of amortization. The development costs reflected were correspondingly increased because the interest charges to the development costs are reduced by periodic transfers of the premium. This matter was brought to the attention of the accountant and the necessary adjustment was made.

Development Costs: The examination of the charges to the development costs disclosed that an item of \$770.00 had been incorrectly classified. This item was reclassified during the course of the audit.

General

Service Charge: It was noted that a service charge of \$.50 is being charged to the tenants of the Chapter 200 projects if their rents are not paid within five days after the due date. This service charge is provided for in the leases signed by the tenants. The total amount charged for this purpose for the period July 1, 1951 to June 30, 1952 amounted to approximately \$550.00 for the five Chapter 200 projects in occupancy.

In this connection it was noted that there is a question as to the legality of making such charges. The State Housing Board has stated that the matter is before the Attorney General for an opinion.

The leases signed by the tenants indicated that this service charge is made for the purpose of defraying the additional management expenses necessitated by the delayed payment of rents. At the present time, the amounts collected are credited to income. Therefore, it is suggested that if such future collections are made, they be credited to the management expenses.

Income Accounts: At the present time, all the income received by each project is credited to one account in the project's records, with notations thereon as to the income applicable to the subsidiary accounts. Since there is a good deal of activity in these accounts, it is recommended that the Authority employ the proper accounting technique

of allocating a ledger sheet for each subsidiary account.

Inventory Items: It was noted that although an inventory record was maintained in the Revolving Fund several purchases of materials and supplies which were made for future use on the projects had been charged directly to the cost of operations.

It is recommended that the Authority set up all such purchases in the inventory account. It is further recommended that the Authority make periodical checks of the inventory items in order to ascertain the effectiveness of the control of such items.

SALEM HOUSING AUTHORITY

REPORT NO. 53-H-4

General - Establishment of a Revolving Fund: It is recommended that a fund of this nature be set up for the payment of the joint expenses of the various projects. In order to establish this fund, funds could be advanced from each project, and thereafter monthly reimbursements could be made to the revolving fund for each project's share of the disbursements from this fund. It would also be necessary to maintain a separate general ledger and a Cash Receipts and Disbursements Register. The expenses applicable to all projects could be prorated on the unit basis as follows:

| | | |
|--------------------------|-----------|-----|
| Chapter 372 - Section IV | 14 Units | 6% |
| Chapter 372 - Section VI | 44 Units | 20% |
| Chapter 200-1 | 32 Units | 14% |
| Chapter 200-2 | 136 Units | 60% |

Project 200-2 - Transfer of Funds from Administration to Development: It was noted that an amount of \$20,000.00 had been transferred from the surplus of the Administration Account to the Development Account for the purpose of reducing the development costs.

Project 200-1 - Development Fund: It was noted that although this project was in permanent financing, the Development Fund still reflected a bank balance of \$366.42. This balance should have been transferred to the Management Account. In this connection it was noted that a voucher was prepared as of June 27, 1952, and that this sum was finally transferred on July 29, 1952.

Project 200-2 - Land Acquired by Eminent Domain: The previous audit report indicated that it was estimated that the cost of certain land taken by eminent domain, which was then in litigation, would be approximately \$17,500.00. It was noted, however, that this amount was increased to \$46,173.26 by court order, and has now been paid.

Chapter 372 - Rent Due: It was noted that on date of audit a total of \$1,478.96 was due to the Salem Housing Authority from present and former tenants. It was further noted that the following rent accounts in the amount of \$702.66 have been outstanding for a period in excess of one year:

| | |
|--------|-----------------|
| A. C. | \$ 5 00 |
| H. O'D | 67 16 |
| J. S. | 400 50 |
| L. K. | 101 00 |
| R. P. | 129 00 |
| | <u>\$702 66</u> |

It is suggested that the Authority make every effort to collect these amounts, and that the accounts which are then determined to be uncollectible, be written off.

Project 200-1 - Rent Due: It was noted that on date of audit a total of \$1,504.17 was due to the Salem Housing Authority from present and former tenants, and that two of the rent accounts in the amount of \$246.67 have been outstanding for a period in excess of one year. It is recommended that if these two accounts have been determined to be uncollectible, they be written off.

Project 200-2 - Rent Due: It was noted that on date of audit a total of \$307.00 was due to the Salem Housing Authority from present and former tenants.

Chapter 372 - Certification of Development Costs and Subsidy Payments: Although the development costs reflected on the records total \$463,042.99, the subsidy payments from the Commonwealth are being made on the basis of \$447,462.96. The difference represents the cost of units under Section IV, which are either owned by the City of Salem, or on lease from private owners. It was also noted that four of the five subsidy payments due the Authority have already been made on the following basis:

Basis of Subsidy Payments

| | |
|---|---------------------|
| Total Development Costs | \$463,042 99 |
| Less: | |
| Section IV Units | 18,872 21 |
| | <u>\$444,170 78</u> |
| Add: | |
| Finance Charges Paid by the City of Salem | 3,292 18 |
| Adjusted Development Cost - Basis of Subsidy Payments | <u>\$447,462 96</u> |
| Subsidy Receivable - 10% of Adjusted Development Cost | \$44,746 30 |
| Paid to Date of Audit | 35,797 04 |
| Balance Due | <u>\$8,949 26</u> |

Accounting Fees: It was noted that the Authority is paying \$75.00 a month to a private accountant. In view of the fact that the Authority regularly employs an accountant at \$77.80 per week, the expense for this type of service appears unnecessary. The accountant employed by the Authority should maintain all the necessary books of accounts with the resultant appreciable savings to this Authority.

Conditions of General Laws, Chapter 121: Section 26-O of Chapter 121 of the General Laws, reads as follows:

" . . . No member, agent or employee of a housing authority shall, directly or indirectly, have any financial interest in any property to be included in, or any contract for property or materials to be furnished or used in connection with, any project of such housing authority. Whoever violates any provision of the preceding sentence shall be punished by a fine of not less than fifty nor more than one thousand dollars, or by imprisonment for not more than one month, or both."

In this connection it was noted that a Board member received payments direct from the Housing Authority for paint and wallpaper supplies to be used in the Chapter 372 project. It is understood that tenants, upon approval of their repair requests, receive a purchase order from the Housing Authority allowing them to purchase the necessary supplies at any store of their choice; the purchase price is not to exceed the amount set by the Authority. It was noted that the majority of tenants purchased their supplies from the above mentioned Board member and his partner.

Project 200-1 - Commonwealth's Annual Contribution: It was noted that the Authority received a subsidy of \$7,294.00 for the operation of this project for the second year under permanent financing. This amount is a reduction of \$1,181.00 from the maximum subsidy of \$8,475.00 received during the first year under permanent financing.

ATTLEBORO HOUSING AUTHORITY

REPORT NO. 53-H-5

Chapter 372 - Profits: The profit of \$12,979.14 for this project for the calendar year 1951 has been turned over to the City of Attleboro. The result of operations for the first six months of the 1952 calendar year reflected a profit of \$3,882.18. It is understood that the entire annual profit will be turned over to the City of Attleboro after the close of the year.

Chapter 372 - Subsidy: A total subsidy of \$30,399.37, representing 10% of the total development costs of \$303,993.68, is due the City of Attleboro by the Commonwealth.

Payments to the City of Attleboro by the Commonwealth, as shown by the records in the office of the City Treasurer, as of the date of audit were as follows:

| | |
|-------------|--------------------|
| June 1951 | \$ 6,079 87 |
| June 1951 | 6,079 87 |
| August 1951 | 6,079 86 |
| | <u>\$18,239 60</u> |

Project 200-1 - Prepaid Rents: As of June 30, 1952 there was a balance of \$723.00 in the prepaid rent account. Because of the procedure followed by this Authority in recording these receipts, it was impossible to determine which tenants had paid these rents in advance.

It is recommended that in the future all receipts be handled in conformance with the method prescribed by the State Housing Board.

Project 200-1 - Total Development Cost: As of date of audit the total development costs per the records amounted to \$1,109,648.84. In this connection it was noted that the amended Contract for Financial Assistance for this project was increased from \$1,053,000.00 to \$1,150,000.00.

In further connection with this project, attention is directed to the fact that the delay in its acceptance has resulted in charges for interest on temporary notes totaling \$13,537.88. This amount is \$7,637.88 in excess of the \$5,900.00 originally estimated for this purpose.

Project 200-1 - Temporary Notes: It was noted that the books of account reflect temporary notes authorized in the amount of \$1,108,000.00. Since the temporary notes actually authorized, as indicated by the revised Contract for Financial Assistance, amounted to \$1,150,000.00, it is recommended that the books of account be adjusted to reflect the approved authorization.

Project 200-1 - Delay in Acceptance of Project: The first occupancy in this project was in December 1951. As of June 30, 1952 the project had not been accepted and was still being financed by the issue of temporary notes.

It is understood that this delay in acceptance is due to minor defects which have to be remedied by the contractor. The Authority will not make the final payments to the contractor until it is certain these defects have been remedied.

AGAWAM HOUSING AUTHORITY

REPORT NO. 53-H-6

Project 200-1

Debt Service Fund: This Authority annually pays into its Debt Service Fund, which is in the custody of the fiscal agent, an amount which together with amounts received from other sources will equal that fiscal year's total debt requirement. The Authority's share is currently being paid in ten installments, one twelfth of the total to be paid on or before the fifteenth day of each of the first nine months, and the balance to be paid on or before the fifteenth day of the tenth month of the fiscal year.

The Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its second subsidy payment in the amount of \$8,275.00. This amount, which is equal to 2 1/2% of the total certified development cost, is the maximum subsidy permissible under the statute. This payment by the Commonwealth was made directly to the fiscal agent of the Authority.

Project Rents: It was noted that the rents charged were more than adequate to cover the operating costs of the project. In this respect attention is called to the fact that the profit for the first fiscal year, after taking into consideration the 2 1/2% subsidy received from the Commonwealth, amounted to \$2,543.52.

Operating Reserve: The management resolution adopted by the Authority provides that a maximum Operating Reserve of \$300.00 per unit, or a total of \$9,600.00, shall be established over a period of five years, with a reservation of one fifth of the total (\$1,920.00) in each of the first five years under permanent financing. In this connection it was noted that a total of \$4,962.06 was transferred to this account during the first fiscal year. It was further noted that as of the date of audit the balance of this account

amounted to \$10,122.56 or \$522.56 in excess of the maximum which was to have been set up.

It is recommended that the charges to operations for the provision for this reserve be discontinued, and that the excess amount reserved be transferred to surplus.

Commonwealth Contribution: The Contract for Financial Assistance between the Commonwealth of Massachusetts, acting by and through the Chairman of the State Housing Board and the Agawam Housing Authority dated December 7, 1948 and amended August 31, 1950, reads in part as follows:

"... whenever, in any fiscal year, the receipts of the Authority in connection with the project, including such annual contributions, exceed its expenditures for the project, including debt service, payments in lieu of taxes, administration, seems for the establishment of reserves and other costs, all as determined by the Chairman, an amount equal to such excess, as determined by the Chairman, shall be applied or set aside for application, in the manner which the Chairman may from time to time prescribe, to purposes which shall effect a reduction in the amount of subsequent annual contributions."

In this connection it was noted that this Authority, on advice from the Chairman of the State Housing Board, had transferred the surplus of \$2,543.52 from the first year of operations, under permanent financing to the Operating Reserve. This transfer was in addition to \$2,418.54 previously provided for in the same period for this purpose by charges to operations.

It was further noted that the maximum subsidy of 2 1/2% of the development cost was received for the second year under permanent financing. In view of the fact that at the present time the Operating Reserve is in excess of the maximum amount established under the management resolution, there appears to be no adequate reason why the State Housing Board should have advised the transfer of the first year's surplus to this reserve.

It is recommended that any future surpluses be used to reduce either the Commonwealth Contribution, the project rents, or both.

Vacancy Loss: It was noted that the vacancy losses applicable to the period under audit were not reflected in the financial records. It is suggested that in the future such vacancy losses be computed and recorded as directed by the State Housing Board.

Investments: In order to lower the net cost of operations, the State Housing Board has advised local authorities to invest excess funds in United States Treasury Notes. As of the date of audit the Agawam Housing Authority had \$10,000.00 invested in United States Treasury Notes bearing interest at 1 3/8%.

Rent Receipts: It was noted that the Authority has followed the practice of dating all rent receipts as of the first of the month and not as of date of collection. It was further observed that receipts were issued for the full amount of the rent even though the tenant had made but a partial payment of his rent at that time.

It is recommended that in the future all rent receipts be issued for the actual amounts received, and that the receipts be dated as of the date of collection.

It is further recommended that the Authority obtain prenumbered rent receipts, and that the receipt numbers be entered in the cash book as prescribed in the accounting manual issued by the State Housing Board.

Utility Charges: The following comment appeared in the last audit report of the Agawam Housing Authority:

"Utility rates now being charged to tenants are insufficient to cover the actual cost of these utilities. It is recommended that the rates be revised to prevent any further deficit from this operation. In this connection it was noted that there was expended during the audit period for utilities the sum of \$6,687.05, while the total income received for the use of these utilities totaled only \$4,788.00, a deficiency of \$1,899.05."

During the current audit period it was noted that the sum expended for utilities amounted to \$4,655.55 as against \$3,116.40 charged to the tenants for these services.

In order to correct this deficiency, it is again recommended that the utility rates be adjusted to the basis of actual cost, as called for in the management resolution adopted by the Authority.

Computation of Rents: It is suggested that the Authority exercise more care in the computation of tenants' rents, and that a consistent policy be adopted and followed with regard to the inclusion of the pensions of disabled tenants.

It is also recommended that a formal lease or lease rider be executed and placed on file for each tenant living in the project.

Project 200-2

Premium on Notes: It was noted that the Agawam Housing Authority did not invest the premium of \$9,165.00 received on the sale of the first series temporary notes.

FITCHBURG HOUSING AUTHORITY

REPORT NO. 53-H-7

Annual Subsidy: The Commonwealth provides an annual subsidy which is not to exceed 2 1/2% of the cost of the project.

A subsidy payment of \$40,375.00 for the second year under permanent financing was received on March 6, 1952 by the Second National Bank of Boston, the fiscal agent for this Authority. The subsidies received by this Authority for the first two years under permanent financing have been for the maximum amount permissible under the statute.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any disbursements are made. No arrangements have been made to have interest paid or credited to the Authority by the fiscal agent for the use of these funds.

Surplus: This project operated at a profit of \$14,397.99 for the first year under permanent financing. This profit was subsequently transferred to the Operating Reserve account on the instructions of the State Housing Board.

It is understood that discussions have been held with the State Housing Board concerning the possibility of reducing rents, or applying the surplus, or a portion thereof, to a reduction of the Commonwealth's contribution.

This matter has been referred to the local Authority for further consideration.

Accounts Receivable, Sundry - Initial Operating Period: The previous audit report commented on the fact that an adjustment for rent outstanding since the initial operating period had not been made.

It was also noted that this adjustment was subsequently made and charged off to collection loss. The authorization for this charge-off was found in the minutes of the Authority's meetings.

CLINTON HOUSING AUTHORITY

REPORT NO. 53-H-8

Surplus: The books of the Clinton Housing Authority reflected a profit of \$3,088.53 for the first year under permanent financing; this surplus was subsequently transferred to the following accounts:

| | |
|----------------------------------|-------------------|
| Operating Reserve | \$2,193 53 |
| Reduction of Annual Contribution | 895 00 |
| | <u>\$3,088 53</u> |

Annual Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the cost of the project. The contribution for the second year under permanent financing was \$7,080.00 and was computed as follows:

| | |
|---|-------------------|
| 2 1/2% of the Development Cost | \$7,975 00 |
| Less: | |
| Amount Reserved from Prior Year's Surplus | 895 00 |
| | <u>\$7,080 00</u> |

This contribution was paid on June 15, 1952 to the National Shawmut Bank of Boston, the fiscal agent for the Authority. In this connection attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any disbursements are made. No arrangements have been made to have interest paid or credited to the Authority by the fiscal agent for the use of these funds.

Contract Retentions: The previous audit report referred to a contract retention of \$4,337.79 which was to be withheld until the project was acceptable to the Authority. According to the financial records, this account was settled in the amount of \$3,837.79, and the balance of \$500.00 was transferred to the Operating Reserve account in accordance with instructions received from the State Housing Board.

WEST SPRINGFIELD HOUSING AUTHORITY

REPORT NO. 53-H-9

Temporary Construction Projects: The financial records of these projects were closed out as of December 31, 1951, the date of the discontinuance of these projects, and all surplus funds were paid to the Town of West Springfield. The final payment in the amount of \$3,050.75 represented the balances in the following accounts as of that date:

| | |
|----------------------|-------------------|
| Reserve for Deficits | \$2,247 05 |
| Earned Surplus | 803 70 |
| | <u>\$3,050 75</u> |

Chapter 372 - Subsidy: As provided in Chapter 372 of the Acts of 1946, as amended, the Town of West Springfield is to receive a total of 10% of the certified development cost of the local project, payable at the rate of 2% per annum for a period of five years. The development cost approved by the State Housing Board amounted to \$350,190.77. To the date of audit the Town of West Springfield has received from the Commonwealth a total of \$28,015.28. This amount represents four payments of \$7,003.82 each.

Permanent Financing - Project 200-1: The West Springfield Housing Authority on January 1, 1952 transferred from temporary financing to permanent financing with the issuance of bonds in the amount of \$813,000.00. These bonds bear interest at the rate of 2 1/4% per year. A premium of \$14,551.00 was also received by the Authority.

The total development cost of this project as of December 31, 1951 was \$833,883.01. This amount was reduced by \$20,883.01 by applying a portion of the income earned during the initial operating period. The net income earned during the initial operating period amounted to \$33,764.01 and was distributed to the Management account, as follows:

| | |
|--------------------------------------|--------------------|
| Reserve for Insurance | \$ 1,606 00 |
| Reserve for Payment in Lieu of Taxes | 2,275 00 |
| Reserve for Operations | 9,000 00 |
| Reduction of Development Costs | 20,883 01 |
| | <u>\$33,764 01</u> |

Debt Service Payments - Project 200-1: The West Springfield Housing Authority is to pay into its Debt Service Fund each fiscal year an amount which together with amounts received from other sources will equal that fiscal year's total debt requirement. This amount is to be paid in ten monthly payments, one twelfth of the total to be paid on or before the fifteenth day of each of the first nine months, and the balance to be paid on or before the fifteenth day of the tenth month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$20,325.00 which represents 2 1/2% of the total certified development cost. This payment was made by the Commonwealth directly to the West Springfield Housing Authority's Fiscal Agent.

Surplus Cash - Project 200-1: It was noted that the cash balance in the Administration Fund has been steadily increasing since permanent financing became effective, because of the provisions made for the operating and debt service reserves. Since these reserves were established to care for contingencies when they arise and should not be used in the normal course of events, it is recommended that this cash surplus be invested. The cost of operations will thus be reduced by the income received on such investments.

QUINCY HOUSING AUTHORITY

REPORT NO. 53-H-10

Demolition of Temporary Construction Projects: These buildings were originally erected by the Federal Government in 1946 for the benefit of veterans. They were subsequently turned over to the City of Quincy on January 1, 1950.

An examination of these buildings by the Building Inspector of the City of Quincy and the Superintendent of Maintenance of the Authority disclosed that they have outlived their usefulness, and it was recommended that they be demolished. A policy of not re-renting these units was initiated and demolition will take place as soon as possible.

The balance in the surplus account as of July 31, 1952 was \$12,269.75. Since the policy of not re-renting these units is now in effect, it is difficult to estimate the amount of surplus for the calendar year 1952 which will be transferred to the City in 1953. The surplus from operations for the year ending December 31, 1951 amounting to \$23,841.49 was remitted to the City in January 1952.

Chapter 372 - Subsidy: The annual subsidy from the Commonwealth is paid on the basis of 2% of the total development costs of \$406,777.60. To date of audit 8% of these total costs, representing four annual 2% payments in the aggregate amount of \$32,542.20, have been paid to the City of Quincy.

Chapter 372 - Surplus from Operations: It is estimated that the surplus from the operations of this project for the fiscal year ending December 31, 1952 will be approximately \$16,000.00. Any such surplus will be remitted to the City of Quincy in 1953. The surplus from operations for the fiscal year ending December 31, 1951 amounting to \$16,462.26 was remitted to the City in January 1952.

Chapter 372 - Condition of Buildings: A visit made to this project disclosed that some of the buildings needed painting, because the original paint showed signs of extensive peeling. It is understood that arrangements have been made to have these buildings painted.

Project 200-1 - Depreciation Reserve Account: The balance sheet of this project reflects a balance of \$71,967.70 in this account which was established on instructions received from the State Housing Board. The previous audit report commented on the fact that this account was created because funds became available because of reimbursements for development costs and that there appeared to be no preconceived account which could be credited for the receipt of these funds. As of the date of audit no instructions have been received from the State Housing Board concerning the method of disposing of this account.

Since the Chapter 200 projects require no provision for depreciation, this Depreciation Reserve account is entirely unnecessary and serves no practical purposes. It is, therefore, recommended that this account be closed out and transferred to the Operating Reserve. This transfer would increase the Operating Reserve to an amount greater than the approved maximum; however, this excess amount could be used to reduce the expense account, Provision for Operating Reserve, which is charged to build up this reserve.

Project 200-1 - Reduction of Commonwealth's Subsidy: If the suggestion concerning the Operating Reserve is adopted, the surplus from this project, after the receipt of the Commonwealth contribution of \$106,250.00, will be approximately \$70,000.00. This, in effect, is a deficit from actual operations of the project of approximately \$36,250.00.

Since the full 2 1/2% Commonwealth subsidy for the fiscal year has already been received, it is recommended that any such surplus be used in reducing the amount of the subsidy in the following fiscal year.

Project 200-1 - Review of Tenants' Income: It is recommended by the State Housing Board that tenants' income be reviewed at least once a year for the purpose of adjusting the rental charges which are based on the tenants' income. Although this yearly review had not been made as of date of audit, it is understood that it will be undertaken by the Authority in the near future.

Charging-Off of Bad Debts: In several instances it was noted that Tenants' Accounts Receivable for unpaid rent were canceled after the attorney employed by the Authority for the collection of these accounts had reported them to be uncollectible. An examination of the minutes of the Authority's meetings disclosed that no approving action had been voted on these cancellations.

The State Housing Board requires that a report be submitted to it showing that all means to collect such accounts have been exhausted, and further requires that the Authority obtain approval of the State Housing Board before canceling delinquent accounts. After such approval is obtained, the Authority's action on the matter should then be recorded in the minutes of its meetings.

It is recommended that the procedure outlined be followed both as to past and future cancellations.

Application of Tenants' Security Deposits to Damages: An examination of the disposition of tenants' security deposits disclosed that it is the practice of this Authority to first apply the deposit against the tenants' account for unpaid rent and the balance of the deposit, if any, to charges for repairs, maintenance and replacements for which the tenants are responsible. In this connection it was noted that certain tenants had not been charged for the full amount of these repairs, since the balance remaining after applying the deposit to the tenants' rent account was not enough to cover the cost of the damages.

Since these deposits are taken for the purpose of insuring the Authority against losses on account of damages for which the tenant is responsible, it is recommended that the present procedure be reversed and the security deposit be first applied to any charge for damages; and the remainder, if any, to the tenant's account for unpaid rent, if so required. In this manner the balance of the tenants' rent account will accurately reflect the tenant's liability for unpaid rent.

Petty Cash Disbursements: It was noted that the Petty Cash Fund of the Temporary Construction Projects is used for the payment of nominal expenses which are chargeable to all the projects. It is recommended that the Petty Cash Fund be set up in the accounts of the Revolving Fund, since this Fund has been set up to pay the joint expenses of the projects.

Fees Not Charged to Tenants' Accounts: It was noted that the tenants' accounts did not reflect the fees paid by the Authority to a Deputy Sheriff for the delivery of a "Notice to Vacate" to tenants because of non-payment of rent. Since the amount paid for this service is the result of an action of the tenant, it is only proper that the tenant's account reflect the amount of this charge.

CHELSEA HOUSING AUTHORITY

REPORT NO. 53-H-11

Projects 200-1 and 200-2 - Annual Verification of Tenants' Incomes: Under the provisions of Chapter 200, tenant rentals are based on the tenant's income and family status. This income is first verified when the tenant occupies a unit. Annual verification of each tenant's income is mandatory as directed by an administrative order by the Chairman of the State Housing Board, in order that there be compliance with the provisions of Chapter 200 with respect to the continued eligibility of tenants and to ascertain that they are paying proper rentals.

In this connection, it was noted that an annual verification of tenants' incomes was made in June 1952 and as a result rent adjustments should normally have become effective September 1, 1952. This confirmation of incomes was completed and indicated increased monthly rental charges by \$495.00. The resultant proposed rentals were also reviewed by two representatives of the State Housing Board.

The tenants were subsequently properly notified of the new rentals which were to have become effective on September 1, 1952. Before these new rates became effective their enactment was postponed with the approval of the Chairman of the State Housing Board, for the following reasons:

- "(1) To allow a recheck of incomes of those tenants who feel that there has been some misunderstanding as to actual family income.
- "(2) The summertime was a bad time to verify incomes because just about everybody had some sort of a job, in most cases of a temporary nature."

It is unfortunate that the foregoing reasons were not considered before the expenses of this study by this Authority and the State Housing Board were incurred.

Projects 200-1 and 200-2 - Permanent Financing: It was noted that arrangements have been completed for Projects 200-1 and 200-2 being permanently financed as of

October 1, 1952. It was further noted that these two projects will be combined and financed as one project. It is believed that this plan should particularly benefit Project 200-1, because of its excessive development costs together with its anticipated high maintenance costs as a result of poor construction.

Project 200-1 - Architectural Fees: It was noted that the architect for this project was paid a total of \$49,132.90. The State Housing Board records indicated that this fee should have been \$6,514.21 lower. This variance comprises the following:

| | |
|--|-------------------|
| Overpayment on Basic Architectural Fee | \$ 541 00 |
| Blueprint Cost | 491 24 |
| Extras | 2,362 50 |
| Fees on Change Orders | 3,119 47 |
| Total Variance | <u>\$6,514 21</u> |

The various items were explained as follows:

The overpayment of \$541.00 on the basic architectural fee came about because the architect's analysis of the costs of the structure, site engineering, and landscaping differed from that used by the State Housing Board.

The blueprint costs and extras are in accordance with the terms of the contract and were substantiated by the architect.

The fees on change orders are apparently in direct violation of the architect's contract, since a flat payment on the change orders at the regular fee rate was made. The contract stipulates that his fees be paid on the construction contract as originally awarded. Any additional expenses incurred by the architect should have been submitted as extras and should have been substantiated. The authorization of a change order in the construction contract should not permit additional payments to the architect.

The Authority has turned this matter over to its attorney who stated that a suit to recover the overpayments will be brought.

Project 200-1 - Tenants' Accounts Receivable: A trial balance of this account as of the date of audit indicated that present and former tenants owe rents totaling \$672.10, consisting of \$45.00 due from present tenants and \$627.10 from former tenants. It was further noted that all efforts to locate one of the former tenants have been unsuccessful, and it is therefore recommended that steps be taken to dispose of the balance of this account which involves \$242.00.

Project 200-1 - Security Deposits: A trial balance of this account on July 31, 1952 indicated that there were four more security deposits than there were units available. Upon examination it was noted that three of these deposits belonged to former tenants, who still owed rent, and the other to a tenant who had vacated an apartment which required repairs. Although the previous audit report recommended that deposits of this nature be applied against the Tenants' Accounts Receivable account or the Repairs, Maintenance and Replacements account, the necessary adjusting entries were not made until July 31, 1952, while the current audit was in progress.

Project 200-1 - Check Book Not Prenumbered: It was noted that a check book was not prenumbered by the bank. It is recommended that only prenumbered checks be used.

Project 200-1 - Development Analysis: This Authority maintains a separate Development Cost Analysis ledger, which has not been posted since December 1950. It is recommended that this subsidiary ledger be brought up to date and reconciled with the control account.

Project 200-2 - Change Orders: As of the date of audit the Authority has initiated change orders of \$99,203.13 pertaining to the construction contract, which represents an increased cost of approximately \$765.00 per unit.

Project 200-2 - Disbursements for Fuel Oil: In the examination of disbursements it was noted that a fuel oil contractor was apparently overpaid in the amount of \$100.80 caused by errors in invoice computations. As a result of bringing this matter to the attention of the proper employees a credit from the contractor in the amount of \$100.80 was received while the audit was in progress.

Project 200-2 - Distribution of Operating Expenses: A review of the distribution of operating expenses indicated the following:

- (1) Cost of bottled gas used in connection with heating units was charged to the Repairs, Maintenance and Replacements account. This item is part of the heating cost and should be charged to the Dwelling and Commercial Utilities account.
- (2) For several months all operating expenses were charged to development costs under an account entitled Operating Expenses during Development. Only items which are true development cost transactions should be included in the Development Cost account.

Correction of these items will not affect the total operating expenses, but will result in true financial statements.

Temporary Construction Projects - Security Deposits: A trial balance of this account on July 31, 1952 indicated that there were three security deposits in excess of the units available. It was found that two of the deposits were made by tenants who vacated on July 15, 1952 and the other by a former tenant who had vacated on June 30, 1952. These deposits which should have been returned to the tenants when their units were vacated, were given back after this matter was called to the attention of the Authority officials during the progress of this audit.

Temporary Construction Projects - Demolition of the Central Avenue Units: The sixteen units located at Central Avenue are in the process of being demolished by the Authority, because the site of Project 200-3 will be located in this area. A vacancy loss of \$529.53 applicable to the Temporary Construction Projects has come about directly because of this action.

Temporary Construction Projects - Appropriated Fund: As noted in the previous audit report, this fund represents money originally given to the Authority by the City of Chelsea for expenses incurred in the preparation of the site and for other preliminary expenses in connection with the original establishment of these projects, and is not reflected on the books of the Authority.

The report of the previous audit called attention to a balance in the account of \$4,130.67, and further noted that a parcel of land was purchased at a cost of \$1,350.00 from these funds. This transaction which was consummated without the authorization of the City of Chelsea was also questioned by the State Housing Board. An opinion as to its legality was requested from the Attorney General of the Commonwealth and as a result the Attorney General indicated in part as follows:

"It is obvious from the foregoing that, under the mandate of this statute, this surplus money should have been turned over to the City of Chelsea. It was not the property of the Authority, but was now being held in trust by the Authority. If the City could have spent the money without the approval of the Board, it would have had to do it by its own direct action. The Authority had no power to spend City owned funds in the manner in which it did.

"While the record here is not too clear it seems that title to the land was taken in the name of the Chelsea Housing Authority. The Authority had no right to take title in such a way. If the Board wishes to approve the transaction, it is suggested that the Chelsea Housing Authority turn its surplus from Title V Projects to the City of Chelsea; the City of Chelsea in turn appropriate the money in question to the Housing Authority for the purpose of purchasing these lots in the City's name; the approval of the Board be obtained for this appropriation; and a deed executed from the Chelsea Housing Authority to the City of Chelsea for these lots."

Despite the opinion, the Authority with complete disregard for the rights of the City and contrary to the foregoing opinion drew a check on the Appropriated Fund for reimbursement of the Temporary Construction Projects.

During this audit period, it was noted that this land had been incorporated into the approved site for Project 200-3.

It is, therefore, recommended that Project 200-3 reimburse the Appropriated Fund for the cost of this land, and as soon thereafter as is practicable the balance in the Appropriated Fund should be returned to the City of Chelsea.

General - Materials Inventory: It is the policy of this Authority to purchase materials for Repairs, Maintenance and Replacements whenever items of this nature are requested. This arrangement makes it necessary for a maintenance man to make separate trips to purchase supplies for each job. It is recommended that a supply of commonly used items be carried and that a control of these supplies be maintained through a materials account such as is prescribed in the Manual of Accounting Procedure of the State Housing Board. It is further recommended that an inventory be taken of the tools, etc. in the possession of the maintenance employees, and that a perpetual inventory of them be maintained.

General - Repairs, Maintenance and Replacements: It was noted that many bills were paid for repairs which were the result of negligence of certain tenants, and in no instance was any attempt made to recover this cost from the tenants responsible.

Since the cost of ordinary repairs, maintenance and replacements is a substantial item of expense in the management of the project, it is urged that the tenants be held responsible for any repairs which are the result of their negligence.

General - Change Fund: It is recommended that a change fund be established. At the present time the Authority employees make change from their personal funds, or from rents collected.

General - Proration of Salaries: It was noted that the salary of the maintenance man in charge was charged entirely to Project 200-2, and there is no doubt that his salary should have been prorated among all the projects.

It was also noted that this employee did not work for a period of two weeks because of an injury suffered while at work. The Authority paid the employee in full for this period, and in turn the employee gave the Authority the monies he received under Workmen's Compensation Insurance. The amounts were deposited to the account of Temporary Construction Projects.

It was further observed that this employee's expenses were charged to all the projects by rotating disbursements for the payment of his expenses to the various projects.

These transactions indicate inconsistencies in the distribution of payments to this particular individual. It is recommended that all payments made to him whether they be for salary or expenses be distributed among all projects on an equitable predetermined basis.

General - Litigation by Former Attorney: An attorney was engaged by the Authority to perform legal services for Project 200-1. It was subsequently brought to the attention of the State Housing Board that since this attorney was an employee of the City of Chelsea, his engagement was in violation of Section 17 of the Contract for Financial Assistance between the Authority and the Commonwealth, which prohibits any employee of a city or town from having any interest in a contract for services with a local Authority. It was also noted that the Authority requested a waiver of this Section but its request was disapproved by the State Housing Board.

Despite this, contracts for legal services for Project 200-2 and title abstract work for Project 200-3 were entered into with this attorney, who also sent the Authority a bill in the amount of \$14,000.00 for services performed beyond the scope of his contracts. The State Housing Board did not approve this invoice for payment, and suit has been brought against the Authority.

General - Disbursements: An examination of the vouchers for various expense disbursements indicated in certain cases that the Authority has approved them without requiring either an analysis of the expenses involved or substantiation of the expenditure. In other instances where daily work reports were submitted, information was not used to verify travel expense vouchers submitted by the employee.

It was also noted that the maintenance man in charge regularly submits expense vouchers. In comparing these vouchers with his daily work reports, it was noted that on a few occasions he was reimbursed for travel expenses when he apparently was not on

duty or was absent from his duties because of illness. On several other occasions, the work reports and the expense vouchers submitted by him did not reconcile with regard to the number of trips made or to the projects visited.

It is apparent that there is some laxity in the disbursing procedures, and it is therefore recommended that the Authority make every effort to organize all controls. It is further suggested that the practice of making checks out to cash be discontinued.

General - Revolving Fund Accounts Payable: It was noted that there was no segregation in the accounts payable of each project of the amounts due to the Revolving Fund. It is recommended that these accounts payable show such analysis in order to facilitate the reconciliation of amounts transferred to the Revolving Fund.

General - Revolving Fund: This fund was established on June 27, 1952 by transferring funds from each project as follows:

| | |
|---------------------------------|-------------------|
| Temporary Construction Projects | \$ 450 00 |
| Project 200-1 | 450 00 |
| Project 200-2 | 800 00 |
| Mass. 16-1 | 700 00 |
| Mass. 16-2 | 600 00 |
| | <u>\$3,000 00</u> |

The expenses applicable to the various projects are prorated on the unit basis as follows:

| | | |
|---------------------------------|-----------|----------------|
| Temporary Construction Projects | 108 Units | 21.34% |
| Project 200-1 | 70 Units | 13.84% |
| Project 200-2 | 128 Units | 25.30% |
| Mass. 16-1 | 105 Units | 20.75% |
| Mass. 16-2 | 95 Units | 18.77% |
| | | <u>100.00%</u> |

General - Visit to the Projects: In the course of the audit all the projects were visited by representatives of this department, as a result of which the following were observed:

Project 200-1

- (1) Sidings of homes are warping. Nails are working their way out of the wood and are rusting badly. The paint is also peeling.
- (2) Shingles are cracked and it was observed that there are spaces between them.
- (3) Clapboards are cracked and warping and stick out about one inch from the buildings.
- (4) Gutters are pulling away from the buildings.
- (5) Oil fuel pipes are protruding 5 to 6 inches above the ground in areas where tenants are constantly walking.
- (6) Tar stains are coming from the roofs on to the siding of the homes.
- (7) Sap is still pouring out of window frames. Some window frames are not made of the proper size wood.
- (8) Canopy supports need painting as they are rusting and peeling. These supports are used for storage spaces, and as a result their deterioration gives the project an untidy appearance.
- (9) Blacktop is cracked and slanted in places.
- (10) The grounds are in poor condition.
- (11) One vacant apartment at the time of inspection was looked at, and it was observed that the 2 X 8 supporting beam inside the house was cracked, warped, and full of knots.

Project 200-2

- (1) Grounds are in poor condition.
- (2) Window sills and balcony guards are rusting and in need of paint.
- (3) Some skylights are leaking.

- (4) Storage rooms are dirty and wall receptacles have no covers over them. The walls show chalk marks and other writings. Storage room doors are broken and some windows are cracked. Only one storage room has light bulbs in it.

The foregoing observations indicate that more diligent maintenance procedures are needed. It is apparent that this Authority has neglected their obligations to the extent that they have failed to adequately maintain these properties. If these buildings are permitted to deteriorate to a point where they become unsuitable for tenancy, the Commonwealth will undoubtedly be forced to assume all the financial obligations of the Authority, inasmuch as the Commonwealth guarantees the notes and bonds issued by the Authority. It is, therefore, recommended that the State Housing Board make a thorough survey of the project and initiate whatever corrective measures that are necessary.

Projects 200-1 and 200-2 - Lawsuit by Former Executive Director: The previous audit report noted that it was anticipated that further payments would be due to the former Executive Director of this Authority for the period between June 12, 1950 and May 28, 1951.

On March 21, 1952 checks totaling \$3,112.82 were issued to him as a result of his lawsuit in final settlement of his account. This amount was established as follows:

| | |
|-------------------|-------------------|
| Amount of Finding | \$2,982 68 |
| Interest | 123 79 |
| Costs | 6 35 |
| | <u>\$3,112 82</u> |

Funds were provided as follows:

| | |
|---------------|-------------------|
| Project 200-1 | \$1,089 49 |
| Project 200-2 | <u>2,023 33</u> |
| | <u>\$3,112 82</u> |

General - Personnel: This Authority presently employs an assistant executive director and bookkeeper at a salary of \$84.57 per week. A firm of private accountants is also engaged and is paid the following fees:

| | | <u>Per Year</u> |
|---------------------------------|-------------------|-------------------|
| Temporary Construction Projects | \$50 00 quarterly | \$ 200 00 |
| Project 200-1 | 50 00 monthly | 600 00 |
| Project 200-2 | 50 00 monthly | 600 00 |
| Mass. 16-1 | 50 00 monthly | 600 00 |
| Mass. 16-2 | 50 00 monthly | 600 00 |
| | | <u>\$2,600 00</u> |

It would appear that there is probably a duplication of accounting services and in the interests of economy, it is suggested that this matter be reviewed.

MIDDLEBOROUGH HOUSING AUTHORITY

REPORT NO. 53-H-12

Administration Fund - Overage: As of the date of audit there was an overage of \$10.20 in this account. This overage was due to an erroneous entry in the application of a security deposit in the amount of \$10.00, and to an overdeposit of \$.20 on account of rent collections.

This item was called to the attention of the proper personnel and it is understood that the necessary adjustments will be made.

Security Deposits: It was noted that as of date of audit the balance of the Security Deposits ledger was \$2.00 in excess of the balance reflected in the Security Deposits Fund and the Tenants' Security Deposits control account. This matter was brought to the attention of the proper personnel, and it is understood that the adjustments necessary to bring these accounts into balance will be made.

Rent Receipts: It was noted that the recommendation of the prior audit with respect to the prenumbering of the rent receipts was not followed.

It is again recommended that the Authority obtain and use receipts which have been prenumbered by the printer.

Minutes of the Meetings: An examination of the minutes of the Authority's meetings revealed that in most instances no written approval could be found for expenditures. It is recommended that all expenditures be noted and approved in the minutes of the Authority's meetings.

Utilities Expenses: It was noted that the total expenditures for utilities purchased from the local municipal plant amounted to \$6,545.14 for the year ending December 31, 1951. In this connection it was noted that the average monthly cost per unit for these utilities amounted to \$19.48, whereas the Authority had charged an average of \$16.05 per month. Since it is not the purpose of the Authority to lose money in this respect, it is suggested that some consideration be given to adjusting the utilities charges in order that the receipts for this service be commensurate with the expense.

Commonwealth Contribution: It was noted that the Commonwealth Contribution for the second fiscal year under permanent financing amounted to \$6,072.00. This amount is \$928.00 less than the maximum subsidy of \$7,000.00 which was received for the first fiscal year under permanent financing.

GRAFTON HOUSING AUTHORITY

REPORT NO. 53-H-13

Annual Contribution: The Commonwealth may make an annual contribution of not more than 21/2% of the total cost of the project. This contribution for the second fiscal year under permanent financing will be \$3,641.00 and was computed as follows:

| | |
|--|-------------------|
| 2 1/2% of the Project Cost | \$3,900 00 |
| Less: | |
| Amount Reserved from Prior Year's Surplus for Subsidy Reduction | 259 00 |
| | <u>\$3,641 00</u> |

This subsidy will be paid to the Worcester County Trust Company, Worcester, Massachusetts, the fiscal agent for the Grafton Housing Authority. It is payable on or about September 15, 1952.

Accounts Payable (Prior Year): There is reflected on the balance sheet (Schedule II) an Accounts Payable of \$117.73. This balance represents the difference between the amount estimated for the installation of storm windows and the actual cost thereof.

The final payment to liquidate this liability was made in February 1952 just prior to the closing of the books for the first year under permanent financing. Since this was a known fact at the time of the closing of the books, there is no apparent reason why this amount was not transferred to surplus and applied for the purpose of reducing the Commonwealth's subsidy for the second year under permanent financing.

Management Program - Rents: The Management program sets forth the prescribed rates to be applied in the determination of the rents to be charged to the tenants. In this connection it was noted that the rates in use at the present time are not those authorized by the Chairman of the State Housing Board in the original Management program on file in the office of the Authority.

According to the Executive Director a revised program has been in effect for the past few months; however, no official authorization could be found for this revision. In a conversation with a State Housing Board official, it was determined that this Board was unaware of any change or revision of the original Management program.

It is recommended that the Authority obtain the authorization of the State Housing Board for the revision as made.

The rents to be charged as stipulated in the original Management program follow:

| | Admission Income Limit | Continued Occupancy Limit | Percentage of Income Used in Computing Rents | Minimum Rent |
|---|------------------------------|---------------------------------|--|-----------------|
| Families with less than three minor dependents | \$3,250 00 | \$3,750 00 | 18% | \$30 00 |
| Families with three or more minor dependents | 3,500 00 | 4,000 00 | 14% | 23 50 |

STOUGHTON HOUSING AUTHORITY

REPORT NO. 53-H-14

Canceled Checks: An examination of the canceled checks issued during the audit period revealed that several of these checks were missing. It is recommended that every effort be made to have these checks available for the next examination.

Quarterly Financial Reports: It was noted that as of date of audit the quarterly financial reports for the period ending June 30, 1952 had not been prepared and forwarded to the State Housing Board.

Reconciliation of Bank Accounts: Because the bank accounts had not been reconciled each month, a deposit which had been credited to the wrong bank account several months prior to the audit date had not been corrected as of the date of audit. Since an important feature of the control of cash is the monthly reconciliation of closing monthly balances indicated by the bank statements with corresponding general ledger cash balances, it is recommended that the Authority take greater care in the exercise of this important function.

Development Fund Payments: In connection with the examination of the Development Fund payments, it was noted that management expenses of \$1,698.38 were erroneously paid from the Development Fund. It is recommended that the necessary adjustments be made.

Administration Fund Payments: In connection with the examination of Administration Fund payments, it was noted that amounts of \$329.11 previously set up in Development Accounts Payable were paid in error by the Administration Fund and charged to operating expenses. It is recommended that the necessary adjustments be made.

Minutes of the Meetings of the Authority: An examination of the minutes of the meetings revealed that in many instances the proper records had not been kept. It is recommended that every effort be made to maintain an accurate and complete record of all meetings.

Permanent Financing: The initial operating period of this project began March 26, 1951, the date of the first tenancy, and ended on March 31, 1952, with the issue of bonds under permanent financing. In this connection it was noted that the bond issue, at an interest rate of $2\frac{1}{8}\%$, was in the aggregate amount of \$305,000.00, the total adjusted development cost of the project. A premium in the amount of \$867.42 was also received by the Authority.

In connection with the permanent financing, it was noted that a portion of the profit from operations during the initial operating period in the amount of \$6,950.89 was used to reduce the amount necessary under the bond issue, and that \$2,200.00 was used to provide for an Operating Reserve. These entries were made in accordance with instructions received from the State Housing Board.

It was further noted that the cash balance in the Development account at that time was carried forward and mainly reserved for the payment of liabilities incurred under temporary financing.

Commonwealth Contribution: A subsidy in the amount of \$7,625.00, representing $2\frac{1}{2}\%$ of the adjusted development costs of \$305,000.00, was approved for this project by the Commonwealth for the year ending March 31, 1953.

As of the date of audit the subsidy had not been received by the fiscal agent of the Authority.

Construction Contract: It was noted that the general contract which had been awarded as of May 11, 1950 for the construction of this project had been terminated

because of "breach" by this Authority as of January 4, 1951. The following reasons were indicated for this action:

"... especially having failed to supply enough properly skilled workmen and material, and failed to make prompt payments to the Subcontractors, and persistently disregarded instructions of the local Authority and Architect, and failed to observe and perform the provisions of the Contract."

The bonding company with the permission of the local Authority and the State Housing Board then assigned this contract to another concern.

As of the date of audit, this contract had not been entirely completed, and final payment is still being withheld.

Contract Award and Incompleted Contracts Accounts: It was noted that these accounts did not reflect a payment to the contractor in the amount of \$10,000.00 or net change orders in the amount of \$1,191.00. It is recommended that the necessary adjustments be made.

NATICK HOUSING AUTHORITY

REPORT NO. 53-H-15

Annual Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the cost of the project. This contribution for the second fiscal year of operations under permanent financing will be \$6,960.00 and was computed as follows:

| | |
|--|-------------------|
| 2 1/2% of the Project Cost | \$12,500 00 |
| Less: | |
| Amount Reserved from Prior Year's Surplus for Subsidy Reduction | 5,540 00 |
| | <u>\$6,960 00</u> |

This contribution will be paid to the First National Bank of Boston, the fiscal agent of the Natick Housing Authority, on or about December 15, 1952.

Overpayment: The previous audit report commented upon an overpayment to an individual for maintenance services rendered. This overpayment was recovered by the Executive Director by applying this overpayment against subsequent charges for additional services by this same individual.

BEVERLY HOUSING AUTHORITY

REPORT NO. 53-H-16

Materials and Supplies: It was suggested in the previous audit report that stock ledger cards be set up for the control of certain maintenance supplies and materials. It was also suggested that items which are lost or damaged should be properly identified and reported so that these ledger cards will show the purported inventory at all times.

In this connection, it was noted that the recommendations of the previous audit report were not adopted. It is again recommended that some system of accounting for these items be installed.

Pay Roll Records: It was again noted that there are no time sheets or other records showing the hours actually worked by employees, nor is there any record of vacations or sick leave accrued and used. It is again suggested that steps be taken to provide these records.

Discounts Not Realized: As commented on in the previous audit report, it was again noted that discounts on purchases had not been realized, because of the failure of the members of the Authority who are the authorized check signers to sign the checks prior to the expiration of the discount period. Although the amounts involved do not represent large sums of money, the loss of the discounts indicates a laxity in the disbursing procedure.

Approval of Vouchers: It was noted that the employees of the Authority have been allowed to use the signature reproducing stamp of the Chairman to stamp his signature on the vouchers, thus indicating his approval. Since the Chairman is required to signify

his approval prior to the payment of the vouchers, it is obvious that the employees should not be permitted to have access to this stamp. The present procedure discloses further laxity in the Authority's control over the propriety of the expenditures.

It is recommended that if at any time the Chairman is not available to properly signify his approval of vouchers, the Authority delegate this responsibility to another member.

Security Deposits: The trial balances of the tenants' security deposits disclosed that the proper deposits have not been made by all tenants. It is recommended that the established security deposit be collected from all tenants.

Tenants' Accounts Receivable: As of date of audit, the balance on the books of the Temporary Construction Projects for rent due from tenants was \$3,493.68, and on the books of Project 200-1 the balance due was \$621.51. It is clearly evident that some positive system of collection should be adopted in order that these balances be kept within reasonable limits.

Revolving Fund: It was recommended in the previous audit that a Revolving Fund be established to facilitate the handling of expenditures that apply to more than one project. It was also recommended that the expenses applicable to the projects be prorated on the unit basis. Since these recommendations have not been adopted, it is again suggested that they be carried out.

Tenants' Ledger Accounts: It was noted that the date of the vacating of the tenants was not entered on their ledger sheets. It was also noted that there was no record on the tenants' accounts to indicate whether the security deposit had been returned to the tenants or applied to their accounts.

It is recommended that these facts be recorded in the tenants' ledger accounts.

Expenditures: An examination of the accounts payable and petty cash vouchers disclosed that many of these vouchers were not supported by substantiating invoices or receipts. It is recommended that the supporting documentary evidence be attached to all the vouchers.

Appropriation Fund: It was recommended in the previous audit report that this fund be reflected on the books of account of the Authority and that all invoices be properly approved prior to their payment.

Since this recommendation was not carried out, it is again brought to the attention of the Authority.

Demolition of Temporary Construction Projects: During the current audit period, thirty-six of these temporary units were demolished. A check in the amount of \$2,500.00 was received from the successful bidder on the demolition work. This amount was turned over to the City on April 4, 1952.

Project 200-1

Architectural Contract: It was noted in the previous audit report of this department that payments to the architect were \$5,715.27 in excess of the amount approved by the State Housing Board. As of date of audit, no action has been taken by the Authority to recover this overpayment.

It is recommended that the Authority request the State Housing Board to review the payments made on the architectural contract.

Project 200-1 - Accounts Payable - Sundry: This account was established when this project was placed in permanent financing and represented the liabilities which were estimated to be chargeable to the development costs.

It now appears that all the liabilities applicable to the period of development have been liquidated, and it is recommended that this account be closed out.

Project 200-1 - Disposition of Prior Year's Surplus: The amount of surplus from this project's operations for the fiscal year ended March 31, 1952 was determined to be \$7,445.48. On the instruction of the State Housing Board, this surplus was disposed of by transferring \$5,662.48 to the Operating Reserve account and \$1,783.00 was to be used as a reduction of the Commonwealth's contribution in the following fiscal year.

The Contract for Financial Assistance states that any excess of income over expenditures after providing for reserves shall be used to reduce the Commonwealth's contribution in the subsequent year.

Since the reserves required in the Management program, which was approved by the State Housing Board and adopted by the Authority, have been established, it appears that the entire surplus of \$7,445.48 could have been applied to a reduction of either the Commonwealth's contribution or the present schedule of rents.

Permanent Financing - Project 200-2: The initial operating period of this project ended on June 30, 1952 with the issue of bonds under so-called Permanent Financing. In this connection it was noted that the bond issue at an interest rate of $2\frac{1}{4}\%$, with a premium of \$8,993.33, was in the aggregate amount of \$466,000.00. This amount represented the total development costs less \$5,213.82 of the income earned during the initial operating period.

It was further noted that the books for the initial operating period were closed as of June 30, 1952, and new accounts under Permanent Financing were opened as of July 1, 1952.

This housing authority will receive a subsidy of $2\frac{1}{2}\%$ of the Certified Development Costs as the first annual Commonwealth contribution. This amount will be paid directly to the fiscal agent of the Authority.

MILFORD HOUSING AUTHORITY

REPORT NO. 53-H-17

Surplus: The books of the Milford Housing Authority reflected a profit of \$4,978.72 for the first year under permanent financing. The entire surplus was subsequently transferred to the Operating Reserve. It appears that a portion of this surplus could have been used either to reduce rentals or the annual contribution of the Commonwealth, because the Operating Reserve prior to the transfer was more than adequate.

Annual Contribution: The Commonwealth may make an annual contribution of not more than $2\frac{1}{2}\%$ of the development costs. In this connection, it was noted that the contribution for the second year under permanent financing amounted to \$18,600.00, the maximum amount permissible under the statute. This contribution was paid to the National Shawmut Bank of Boston, the fiscal agent of this Authority, on March 6, 1952.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any disbursements are made. No arrangements have been made to have interest paid or credited to the Authority by the fiscal agent for the use of these funds.

Tenants' Accounts Receivable: It was noted that the balance of this account applied to a September 1951 rent charge and that it was owed by a tenant who is no longer living in the project. The Authority, after making every effort to collect this amount, was subsequently given permission by the State Housing Board to write off this tenant's account. As of date of audit, this write-off had not yet been made.

NANTUCKET HOUSING AUTHORITY

REPORT NO. 53-H-18

Subsidy Payments: A total subsidy of \$8,047.52, representing 10% of the total development costs of \$80,475.24 was due the town of Nantucket by the Commonwealth.

Subsidy payments to the Town of Nantucket by the Commonwealth as indicated by the records of the State Housing Board, have been made as follows:

| | |
|---------------|-------------------|
| February 1952 | \$1,609 50 |
| February 1952 | 1,609 50 |
| August 1952 | 1,609 50 |
| | <u>\$4,828 50</u> |

Transfer of Profits: The profit of \$2,190.51 for this project for the calendar year 1951 has been turned over to the Town of Nantucket. The result of operations for the first nine months of the 1952 calendar year reflected a profit of \$2,333.66. It is understood that the entire annual profit will be turned over to the Town of Nantucket after the close of the year.

Rent Receipts: The previous audit report commented upon the fact that prenumbered

rent receipts were not used by this Authority. In this connection it was noted that the policy of using prenumbered receipts has not yet been adopted. This matter was again discussed with a representative of the Authority, and it is understood that future purchases of rent receipts will be numbered in advance.

Minutes of Meetings: The previous audit report commented upon the fact that there was no record of the meetings of the Authority subsequent to November 1950. It was again found that there was no record of the meetings available. There is no reason why this record should not have been kept. The importance of keeping a record of the meetings cannot be emphasized too strongly.

Rents: The shelter rent amounting to \$42.00 per dwelling unit is based upon an average of local rents and not upon income or family status. Neither equipment nor utilities are provided by the Authority - each tenant pays for his own.

BROCKTON HOUSING AUTHORITY

REPORT NO. 53-H-19

Chapter 372 - Profits: The profit of \$7,889.98 for this project for the calendar year 1951 has been turned over to the City of Brockton. The result of operations for the first eight months of the 1952 calendar year reflected a profit of \$5,301.64. It is understood that the entire annual profit will be turned over to the City of Brockton after the close of the year.

Chapter 372 - Subsidy: A total subsidy of \$15,699.34, representing 10% of the total development costs of \$156,993.36 was due the City of Brockton by the Commonwealth.

As of date of audit, the payments to the City of Brockton by the Commonwealth, as shown by the records in the office of the City Treasurer, were as follows:

| | |
|-------------|-------------------|
| July 1952 | \$3,139 87 |
| July 1952 | 3,139 87 |
| August 1952 | <u>3,139 87</u> |
| | <u>\$9,419 61</u> |

Chapter 372 - Development Fund: It was noted that on August 31, 1952, there was a balance of \$50.40 in this fund. Since these funds are no longer needed, it is recommended that this money be returned to the City of Brockton.

Project 200-1 - Commonwealth Contribution: It was noted that the Commonwealth Contribution for the second fiscal year under permanent financing amounted to \$24,511.00. This amount is \$4,239.00 less than the maximum subsidy of \$28,750.00 which was received for the first fiscal year under permanent financing.

Project 200-1 - Security Deposits: It was noted that as of date of audit the balance in the Security Deposits Fund was \$100.00 in excess of the balance reflected in the Tenants' Security Deposits ledger and the Tenants' Security Deposits control account. This excess was attributed to the fact that refunds of deposits had been made from the Administration Fund and had not been reimbursed by the Security Deposits Fund. During the course of the audit the necessary adjustments were made.

Project 200-1 - Bid Deposits: It was noted that as of the date of audit bid deposits for Project 200-2 in the amount of \$400.00 were erroneously reflected on the books of Project 200-1. During the course of the audit the necessary adjustments were made.

Project 200-1 - Interest on Security Deposits: It was noted that as of date of audit interest in the amount of \$38.86 which had been credited by the bank previous to the date of audit was not reflected on the books. During the course of the audit the necessary adjustments were made.

Chapter 200-2 - Materials Stored: It was noted that because of an erroneous distribution of development charges, the Materials Stored account was understated and the Structures and Equipment account overstated by \$28.97.

During the course of the audit the necessary adjustments were made.

EVERETT HOUSING AUTHORITY

REPORT NO. 53-H-20

Escrow Fund - Coburn Estate: On December 30, 1949, anticipating the building of an additional housing project, the Authority acquired title to a parcel of land known as the Coburn Estate.

At the present time, the Authority is receiving rental income on this property as follows:

| | |
|------------|-------------------|
| Tenant "A" | \$ 35 00 per year |
| Tenant "B" | 600 00 per year |

This income is deposited in a bank in an "escrow" account. The funds are deposited in this manner, because this income would be transferred to the City of Everett in the event that the property reverted to the city. As of the date of audit, the balance of this account, after adjustments, amounted to \$1,194.36.

The previous audit report commented upon the fact that an expenditure of \$125.00 which was made from the funds of Project 200-1 should have been disbursed from the Escrow Fund. This item was discussed with the accountant and the accounts were adjusted accordingly.

The previous audit report suggested that the income from the Coburn Estate be reflected on the books of the Authority and that all expenses incurred in connection with efforts to obtain approval for its use as a housing project site be charged against this income. It is again recommended that the procedures outlined above be followed.

Project 200-1 - Tenants' Accounts Receivable: As of the date of audit the aggregate of the detail accounts in the Tenants' Accounts Receivable ledger was \$.50 less than the balance of the controlling account in the general ledger. In this connection, it was noted that Project 200-2 had a cash overage of the same amount. It would appear that this difference is the result of an erroneous distribution of rental collections between the projects.

Project 200-1 - Transfer of Funds: At the time of the entrance of this project into Permanent Financing, a transfer of \$90,000.00 was made from the Administration Fund to the Debt Service Fund. This amount and the proceeds of the bond issue were to be used to retire the temporary notes issued under Temporary Financing. This transfer was recorded on the records of this project in the Accounts Receivable - Administration and the Accounts Payable - Development accounts.

In this connection it was noted that as of date of audit the books reflected a liability from Administration to Development in the amount of \$100,000.00. This liability represented the surplus of the Initial Operating Period which was to have been transferred to the Development Fund. A transfer for note retirement should then have been made to the Debt Service Fund by the Development Fund.

This by-passing of the Development Fund has resulted in the inflation of the Accounts Payable - Development and the Accounts Receivable - Administration in the amount of \$90,000.00. It is recommended that the necessary adjustments be made.

Project 200-1 - Payment in Lieu of Taxes: During the course of this audit, the Authority turned over \$14,337.58 to the City of Everett as a payment in lieu of taxes. This payment was authorized by the State Housing Board.

General - Allowances to Board Members: It was noted that board members were allowed \$35.00 quarterly for car and telephone allowance from the funds of Project 200-1, and that an amount of \$25.00 was likewise allowed from the funds of Project 200-2. The allowances made during the period under audit amounted to \$689.00 for Project 200-1 and \$571.68 for Project 200-2.

BEDFORD HOUSING AUTHORITY

REPORT NO. 53-H-21

Surplus from Operations: The surplus from operations for the first fiscal year under permanent financing amounted to \$1,605.79. In this connection, it was noted that the State Housing Board directed the Authority to transfer \$1,015.79 to the Operating Reserve and to reserve the balance of \$590.00 for the purpose of reducing the Commonwealth's contribution for the second year under permanent financing.

The balance in the Operating Reserve prior to this transfer amounted to \$2,464.42, an amount which was more than adequate at that time. Attention is directed to the fact that after the surplus transfer the balance of the Operating Reserve account totaled \$3,480.21, or a sum \$119.79 less than the maximum amount which is to be reserved for this project. This maximum reserve was to have been set up over a five-year period.

It is difficult to understand why the entire surplus of \$1,605.79 was not applied to a reduction of the Commonwealth's contribution for the second year under permanent financing. It would appear that the State Housing Board is unduly concerned with the building up of the Operating Reserve.

Vacancy Loss: It was noted that the Vacancy Loss account had been incorrectly set up on the books of the Authority. As a result of this error, the Gross Income account was understated by \$18.30 and the Vacancy Loss account, which should have reflected a debit balance, showed a credit balance of \$18.30. The proper function of this account was explained to the bookkeeper of the Authority, and the necessary adjustment was made.

Drainage Problem: Because of the hard clay terrain in the vicinity of the project, the drainage system has not functioned properly, and it was necessary to extend this system to an area further removed from the project. It is expected that the drainage problem will be permanently solved in the near future, because the Authority's system is to tie in to a new sewerage system which is being constructed in the area of the project. It was observed that the State Housing Board has allocated funds in the budget of the Authority for this purpose.

In connection with the extension of the drainage system, it was noted that a local contractor was originally awarded a contract of \$250.00 for this work. However, because the amount of work which had to be done exceeded the estimate, the balance of the work, at an additional cost of \$715.16 was performed without the benefit of a contract and only on the verbal approval of the State Housing Board.

It is recommended that the Authority request the formal approval of the State Housing Board for the additional payment of \$715.16.

Inspection of the Project: During the course of the visit to the project, it was observed that several buildings are in the need of exterior painting. In this connection, the Executive Director stated that it is planned to do this painting in the spring of 1953.

ANDOVER HOUSING AUTHORITY

REPORT NO. 53-H-22

Development Costs: It was noted that this project was originally planned to cost \$670,000.00, with a unit cost of \$11,964.00. The actual final cost was \$626,000.00, resulting in a reduced unit cost of \$11,179.00.

Permanent Financing: The initial operating period of this project ended on March 31, 1952 with the issue of bonds under permanent financing. In this connection, it was noted that the bond issue, at an interest rate of 2 1/8%, with a premium of \$1,971.90, was in the aggregate amount of \$626,000.00. This amount represented the total development costs less the net income earned during the Initial Operating Period.

It was further noted that the books for the Initial Operating Period were closed as of March 31, 1952, and new accounts under permanent financing were opened as of April 1, 1952.

In this connection, attention is called to the fact that at the end of the Initial Operating Period the cash balance in the Administration Fund was represented as \$25,626.27. This amount was set aside for the following items:

| | |
|----------------------------------|--------------------|
| Tenants' Security Deposits | \$ 540 00 |
| Prepaid Rents | 93 50 |
| Reserve for Insurance | 1,252 00 |
| Accrued Payment in Lieu of Taxes | 325 38 |
| Operating Reserves | 1,725 00 |
| Accounts Payable | 21,977 89 |
| | <u>\$25,913 77</u> |

Less:

| | |
|------------------------------|--------------------|
| Tenants' Accounts Receivable | \$ 287 50 |
| | <u>\$25,626 27</u> |

In further connection with this matter, it was noted that the cash balance in the Development Fund on that date totaled \$1,510.41. The total assets available in this fund were as follows at that date:

| | |
|--|--------------------|
| Cash | \$ 1,510 41 |
| Investment in United States Treasury Bills | 39,892 91 |
| Accounts Receivable | 22,603 39 |
| | <u>\$64,006 71</u> |

This amount was set aside for the following items:

| | |
|-----------------------------|--------------------|
| Accounts Payable | \$25,876 30 |
| Interest on Temporary Notes | 38,130 41 |
| | <u>\$64,006 71</u> |

This Authority will receive a subsidy of 2 1/2% of the certified development costs as the first annual Commonwealth Contribution. In this connection, it was noted that the Authority received \$15,650.00 on September 3, 1952. This amount was paid directly to the fiscal agent of the Authority.

Attention is called to the fact that approximately 85% of this subsidy payment which is paid to the fiscal agent will be held by him for six months and twenty-seven days before any disbursements are made. It is understood that no arrangements have been made for interest to be paid or credited for the use of these funds.

General - Books of Accounts of Authority Kept by Private Accountant: This examination was initiated on October 8, 1952. At that time it was noted that the cash book and ledgers pertaining to this project had not been posted since August 31, 1952. The books were subsequently posted up to September 30, 1952 on October 21, 1952.

SWAMPSCOTT HOUSING AUTHORITY

REPORT NO. 53-H-23

Surplus from Operations: The surplus from operations for the first fiscal year under permanent financing amounted to \$3,670.15. In this connection, it was noted that the State Housing Board directed the Authority to transfer \$2,139.15 to the Operating Reserve and to reserve the balance of \$1,531.00 for the purpose of reducing the Commonwealth's contribution for the second year under permanent financing.

The balance in the Operating Reserve prior to this transfer amounted to \$4,313.83, an amount more than adequate at that time. Attention is directed to the fact that after the surplus transfer the balance in the Operating Reserve totaled \$6,452.98, or 59.75% of the maximum amount to be set up in this reserve by this project. This maximum reserve was to have been achieved over a five-year period.

In view of the above, it is difficult to understand why the entire surplus of \$3,670.15 was not used to reduce either the Commonwealth's contribution for the second year under permanent financing, the project rents, or both.

Verification of Tenants' Incomes: It was noted that there was no verification of tenants' incomes made between June 1950, the date of initial occupancy, and August 1952. The State Housing Board has issued an administrative order which requires every Housing Authority to verify the income of its tenants at least once a year. The purpose of this procedure is to carry out the intent of the Housing Law with respect to charging rents based upon the tenant's family status and income.

In this connection, it was noted that the verification of income made in August 1952 resulted in a monthly rent roll increase of \$188.50. Therefore, it is recommended that in the future the Authority review the tenants' incomes at least once a year.

Purchase Discounts: An examination of vendors' invoices revealed that the Authority has neglected to take advantage of possible cash discounts on purchases. Since it is a fairly common practice to receive cash discounts on purchases, it is suggested that the Authority make every effort to obtain such discounts.

Tenants' Accounts Receivable: It was noted that as of the the date of audit the Tenants' Ledger reflected a balance of \$247.80 in the account of a tenant who had been evicted for non-payment of rent in February 1952. In this connection, it was observed that the balance in his account on September 30, 1952 was the same as the balance shown

in February 1952.

It is understood that the attorney retained by the Authority to collect this rent arrearage has received partial payments from the evicted tenant. The attorney has informed the Authority that he will make no remittance of any funds collected until the entire amount owed is paid.

There is no apparent reason why these collections should not be turned over to the Authority when received. In this manner, the Tenants' Accounts Receivable Account will be properly reflected on the Authority's records.

Distribution of Expenses: An examination of the distribution of expenses was made and the following discrepancies were noted:

1. A water bill in the amount of \$63.50 which should have been charged to the Dwelling Utilities account had been charged to Management Expense account.

2. A \$3.00 payment for an office sign which was charged to the Repairs, Maintenance and Replacements account should have been charged to the Management Expense account.

3. A \$14.40 disbursement for Workmen's Compensation Insurance was charged to the Management Expense account. This item should have been charged to the Insurance Expense account.

It is recommended that the Authority make the necessary adjusting entries.

Payment to a Board Member: It was found that a payment of \$80.50 was made to a Board Member for services rendered in connection with the preparation of Change Order #13. Although this payment was approved by the State Housing Board, it would appear to be an improper expenditure, because Section 26-O of the Housing Authority Law provides that the total compensation for services to be paid to all members in any one month or year shall not exceed one per cent of the gross income of the Housing Authority during such month or year respectively. This amount, which was paid in May 1952, was substantially in excess of 1% of the gross income of that month.

Minutes of the Board Meetings: It is a policy of this Authority to include in the Minutes of the Board Meetings a list of approved expenditures. In many instances it was noted that expenditures were made without this formal approval. It is suggested that in the future all expenditures be approved in this manner.

It was noted that an employee of the Authority was given a salary increase in accordance with the higher administrative costs allowed by the State Housing Board. This salary increase has never been formally approved in the minutes of the meetings.

The fact that the State Housing Board has increased the maximum amount allowable for certain costs does not necessarily mean that this maximum must be attained. The members of the Authority must formally approve all salary increases, and it is recommended that the minutes of the meetings reflect the authorization for this salary increase.

Contracts: An examination of the contract awards revealed that two contracts in the amount of \$1,116.00 were awarded and executed without the necessary approval of the Chairman of the State Housing Board. It is recommended that all future contracts be submitted to the State Housing Board for approval prior to award and execution.

Accounts Payable - Overage: In the prior audit report it was noted that cash receipts of \$21.00 could not be identified as to source. This amount was subsequently set up in an Accounts Payable - Overage account. Since as of this date the source of these funds is still unknown, it is recommended that this account be closed out and the amount transferred to surplus.

Accounts Payable Vouchers: The examination of the accounts payable vouchers revealed that several vouchers pertaining to trips and conferences at the State Housing Board were lacking in detail. It is recommended that all vouchers clearly indicate the nature and source of the expenses involved.

Incompleted Contracts: Although all the work contracted for has been completed by the general contractor, the Incompleted Contracts account was found to have a balance of \$1,500.00. Since final payment to the general contractor is scheduled in the near future, it is recommended that this account and the contra account, Contract Awards, be correspondingly adjusted.

Fire Loss Reimbursement: An amount of \$324.31 was received by the Authority as an insurance reimbursement for a fire loss. In this connection, it was noted that the following accounts were credited for this reimbursement:

| | |
|---------------------------------------|-----------------|
| Repairs, Maintenance and Replacements | \$227 00 |
| Operating Reserve | 45 31 |
| Miscellaneous Income | 52 00 |
| | <u>\$324 31</u> |

This entire reimbursement should have been credited to the Repairs, Maintenance and Replacements account, since all the expenses applicable to the fire were charged to this account. The reasons for the above distribution could not be determined. It is suggested that the necessary entries to adjust these accounts be made.

Change Order #13: This change order involves the installation of a subdrainage system. The general contractor originally submitted a price of \$4,625.00 for the required work. An amount not to exceed \$4,500.00 was approved in the form of Proceed Order #1. This order was signed by the architect, the construction adviser, the Chairman of the Authority and a representative of the general contractor. There was no evidence to indicate that the approval of the Chairman of the State Housing Board had been obtained.

The general contractor subsequently presented the Authority with Change Order #13 in the amount of \$14,513.49 for the work which was to have been performed under Proceed Order #1. This change order was countersigned by the construction adviser.

The amount of this change order became the subject of many discussions between the architect, the contractor, the Authority, and the Chairman of the State Housing Board. The Chairman of the State Housing Board subsequently approved an amount of \$12,647.17 as the cost of this change order. The Authority agreed to approve this amount, but did so under protest. At this point the Chairman of the State Housing Board refused to sign the change order until the protest was removed. The Authority withdrew its protest and the change order was formally approved, and the sum of \$12,647.17 was paid to the general contractor.

This entire controversy could have been avoided if this change order had been prepared at the time the work was to be performed and submitted to the Chairman of the State Housing Board for his approval. It is difficult to understand why the parties concerned went ahead with the work without the approval of the Chairman of the State Housing Board, because under the terms of the Contract for Financial Assistance the Authority had to have this approval before it could enter into any agreement which would change the contract price for the development of the project.

GLOUCESTER HOUSING AUTHORITY

REPORT NO. 53-H-24

Project 200-1 - Water Seepage in Cellars: The two previous audit reports of this department commented on the water seepage condition in various cellars of the project. Despite the fact that substantial funds have been expended in an attempt to correct this condition, the seepage still exists.

It is understood that the State Housing Board has been consulted, but that no positive action has been taken by this agency. Since the State Housing Board has undoubtedly had experience with similar problems in other projects, it is difficult to understand why it has not made any definite remedial recommendations to the Authority on this matter.

Project 200-1 - Architect's Fee: It was noted in the previous audit report that there had been an overpayment to the architect. The exact amount of this overpayment is in dispute because of the differences in interpretation as to the tables used in computing the architect's fee.

It is difficult to understand why the State Housing Board has not settled this matter in the considerable period of time which has elapsed since this overpayment was discovered.

It is recommended that the State Housing Board determine the proper amount of the architect's fee and initiate the proper action in the matter of the recovery of the overpayment.

Temporary Construction - Remodeling - Surplus to City: The surplus from operation of these units for the fiscal year ended December 31, 1951 amounted to \$2,050.10

and was remitted to the City in February 1952. It is estimated that the surplus from operations for the fiscal year ending December 31, 1952 will be approximately the same amount, and this sum should be turned over to the City early in 1953.

In this connection it may be noted that the leases in all units not owned by the City will expire in 1953, and that the property will then revert to the owners on the various expiration dates.

Temporary Construction Projects - Surplus to City: The surplus from operation of this project for the fiscal year ended December 31, 1951 was \$7,014.51. This sum together with an Account Payable in the amount of \$971.45 was turned over to the City as follows:

| | |
|--|-------------------|
| Surplus from Operations | \$7,014 51 |
| Accounts Payable - City of Gloucester | 971 45 |
| | <u>\$7,985 96</u> |
| Paid City of Gloucester, February 1951 | \$1,713 62 |
| Paid City of Gloucester, February 1952 | 6,272 34 |
| | <u>\$7,985 96</u> |

It is estimated that the surplus from operations for the fiscal year ending December 31, 1952 will be approximately \$11,500.00, and this amount will be turned over to the City in the early part of 1953.

In connection with this project, it may be noted that it is planned to demolish these units upon the completion of a Federally-aided low rent project undertaken by the Authority.

AMESBURY HOUSING AUTHORITY

REPORT NO. 53-H-25

Rent Receipts: It was noted that several unnumbered rent receipt slips had been used while the Authority was waiting for a new rent receipt book to be printed. It is suggested that future orders for numbered rent receipts be placed well in advance in order that the Authority will be assured of an adequate supply at all times.

Express Charges: As noted in the previous audit report, an express charge of \$46.00 was paid for the delivery of twenty-seven hot water heaters. These charges should not have been paid by the Authority for delivery of these heaters since under the terms of the contract, delivery was to have been made by the contractor. It was noted that the Amesbury Housing Authority has not yet received reimbursement for this amount. The Executive Director stated that this matter was now in the hands of the Authority's attorney.

Waiver of Section 17 of the Contract for State Financial Assistance: Attention is called to the fact that this Authority has not yet requested the State Housing Board to waive Section 17 of the Contract for State Financial Assistance which states that:

"No member, officer, agent, servant, or employee of the Authority or of the city or town in which the project is located, shall have any interest, direct or indirect, in any contract for property, materials, or services to be acquired by the Authority or furnished or used in connection with the project."

In this connection it was noted that the Executive Director is also the Director of Veterans' Services for the Town of Amesbury. It is, therefore, recommended that the necessary waiver be obtained from the Chairman of the State Housing Board.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to various State and municipal officials. It was noted that as of date of audit the report for the calendar year 1951 had not been made by this Authority. The Executive Director prepared and submitted this report on November 14, 1952.

General - Books of Account: It was noted that the books of the Authority are kept by a private accountant who visits the office periodically. This accountant is paid by the

Executive Director, since the Executive Director's salary includes an amount which applies to accounting services.

It was noted that as of September 30, 1952, the date of audit, the records of the Authority did not reflect the retirement of four \$1,000.00 bonds maturing in the fiscal year July 1, 1951 to June 30, 1952, or the payment of interest coupons for the period July 8, 1952 to August 19, 1952. This information was made available to the Authority in a letter from the fiscal agent dated September 12, 1952. It is recommended that the proper entries be made in order that the affected accounts reflect the true balances.

It is also recommended that the Accounts Payable - Development account be closed out and that the Development Fund cash be transferred to the Administration Fund, because it now appears that all the development liabilities have been liquidated.

Permanent Financing: The surplus for the first fiscal year of operations under permanent financing, after taking into consideration the Commonwealth Contribution of \$6,550.00, amounted to \$1,937.03. This surplus was disposed of by transferring \$1,271.03 to the Operating Reserve and the balance of \$666.00 was to be used to reduce the Commonwealth Contribution in the subsequent fiscal year.

It was noted that the Authority's requirement for debt retirement in the second fiscal year will be \$2,828.43. This amount was arrived at as follows:

| | | |
|-------------------------------------|------------|-------------------|
| Total Debt Service Requirement | | \$9,482 50 |
| Less: | | |
| Commonwealth Contribution | \$5,884 00 | |
| Reserved from Surplus | 666 00 | |
| Yearly Amortization of Bond Premium | 72 64 | |
| Investment Profit | 31 43 | 6,654 07 |
| Project Requirement | | <u>\$2,828 43</u> |

TAUNTON HOUSING AUTHORITY

REPORT NO. 53-H-26

Temporary Construction Projects - Profits: It was noted that the profit of \$9,530.68 derived from the operation of these projects for the calendar year 1951 had been turned over to the City of Taunton. It was further noted that the operations for the first ten months of the 1952 calendar year reflected a profit of \$6,317.68. It is understood that the entire annual profit will be turned over to the City of Taunton after the close of the year.

Temporary Construction Projects: It was noted that as of September 15, 1952 the Executive Director was authorized by the Authority to notify the tenants residing in the temporary units that the Authority had voted to terminate the renting of these units. As of the date of audit only 38 of the 65 units were occupied.

Temporary Construction Projects - Building #26: It was noted that as of December 31, 1951 the Federal Government released all its rights and interests in Building #26 to the Commonwealth of Massachusetts, completing the transfer of Camp Myles Standish.

It was further noted that as of December 31, 1951 the Authority had in its custody for the account of the Federal Government an amount of \$388.37 which represented the profit realized on this building. The Federal Government subsequently agreed that this sum should be turned over to the Authority to offset the costs incurred by the Authority in maintaining the building.

As of October 31, 1952, this amount of \$388.37 was still reflected on the records of the Authority as a liability to the Federal Government. It is understood that the necessary adjustment will be made at the close of the calendar year 1952.

Temporary Construction Projects - Miscellaneous Sales: During the period under audit surplus equipment in the amount of \$35.00 was sold.

The local Authority voted to sell this equipment at a private sale because there had been no response to advertisements for bids.

Permanent Financing - Project 200-1: The Initial Operating Period of this project began on February 20, 1950, the date of the first tenancy, and ended on September 30, 1952 with the issue of bonds under Permanent Financing. In this connection, it was noted that bond issue at an interest rate of 2 1/2% was in the aggregate amount of \$1,282,000.00, the total adjusted development cost of the project. The Authority also

received a premium of \$20,217.14 on this issue.

It was also noted that the profit from operations during the Initial Operating Period, amounting to \$38,589.59 was used to reduce the amount of the development costs, and that in this same period \$11,463.00 was charged to income to provide for a so-called Operating Reserve. These entries were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and mainly reserved for the payment of liabilities previously incurred and accrued interest on notes outstanding under Temporary Financing.

Development Costs - Project 200-1: It was noted that the following factors were not considered in the determination of the final development costs:

1. The income from investments in the amount of \$811.02 which was earned during the period of Temporary Financing but not credited by the bank until the first day under Permanent Financing.
2. A contract account understatement in the amount of \$750.00 because of a duplication in the posting of Change Order #1 which provided for a contract price credit for that amount.
3. The balance of \$1,692.95 which was owed to the architect.

Payment of Administration Expenses from Development Fund - Project 200-1: The previous audit report commented upon the fact that certain Administration expenses had been paid from the Development Fund. Since no adjustment has yet been made in this respect, it is again suggested that the Development Fund be reimbursed for these expenditures, which as of the date of the current audit amounted to \$1,321.40.

Delay in Final Acceptance of Project - Project 200-1: As of October 31, 1952 this project had not yet been accepted. This delay in acceptance is due to a leakage problem caused by the Mica Mastic peeling from the buildings and a few other defects in construction. The Authority will not make the final payment to the contractor until it feels certain that all the defects have been remedied.

Utilities Expenses - Project 200-1: It was noted that the average monthly cost per unit for heat and hot water amounted to approximately \$13.90 during the Initial Operating Period. In this connection it was noted that in the same period the Authority had charged but \$8.60 per month for these utilities.

It was further noted that the local Authority had consulted with the State Housing Board concerning the excessive heating costs, and that the State Housing Board had authorized the reservation of an amount of \$49,000.00 for the purpose of revising the present heating system.

Ineligible Tenants - Project 200-2: A review of the records of the tenants indicated that several tenants had continued to remain in this project after they had become ineligible. This ineligibility was due to the fact their incomes exceeded the continued occupancy limit.

In this connection it was noted that the tenants concerned had been notified of their status and advised to vacate the project.

Permanent Financing - Project 200-2: The Initial Operating Period of this project began on December 4, 1951, the date of the first tenancy, and ended on September 30, 1952 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue at an interest rate of $2\frac{1}{2}\%$ was in the aggregate amount of \$554,000.00, the total adjusted development cost of the project. The Authority also received premiums of \$8,736.58 on this issue.

In this connection it was noted that the profit from operations during the Initial Operating Period, amounting to \$4,182.85, was used to reduce the amount of the development costs. It was also noted that in this same period \$3,000.00 was charged to income to provide for a so-called Operating Reserve. These entries were made at the suggestion and on the Authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and mainly reserved for the payment of liabilities previously incurred and accrued interest on notes outstanding under Temporary Financing.

Development Costs - Project 200-2: It was noted that the following factors were not considered in the determination of the final development costs:

1. The income from investments in the amount of \$412.86 which was earned during the period under Temporary Financing but not credited by the bank until the first day under Permanent Financing.
2. A contract account understatement in the amount of \$350.00 because of the omission of Change Order #21 which provided for an increase of that amount in the contract price.
3. An understatement of \$88.76 in the balance owed to the architect because of an erroneous charge to his account.

Delay in Final Acceptance of Project - Project 200-2: As of October 31, 1952 this project had not yet been accepted. This delay in acceptance of the project by the Authority is due to the discovery of a few minor defects in its construction; in addition, the amount of money owed by the Authority on the construction contract is in dispute because of certain work eliminated by the Authority. The Authority will not make the final payment to the contractor until the above matters have been taken care of.

REVERE HOUSING AUTHORITY

REPORT NO. 53-H-27

Petty Cash Vouchers: An examination of the petty cash disbursements indicated that vouchers had not been prepared for many of the disbursements made from the Petty Cash Fund. It was also noted that in those instances where vouchers were prepared they were not prenumbered and that supporting documentary evidence had not been marked to indicate payment when the fund was reimbursed.

It was recommended to the Executive Director that the Authority use prenumbered vouchers for petty cash disbursements, and that the documentary evidence supporting these disbursements be marked to indicate payment at the time the Petty Cash Fund is reimbursed.

Rent Adjustments: An examination of the lease riders adjusting tenants' rentals indicated that various employees of the Authority had been permitted to sign these riders on behalf of the Authority. This matter was discussed with the Executive Director, the official authorized to sign the original leases for the Authority, and he stated that employees are now prohibited from signing such riders and that at the present time he has the sole authority to sign such riders.

Change Orders - Project 200-1: It was noted that the contractor for the first group of units constructed under this project had been overpaid on his last periodical estimate, because he failed to include a credit change order of \$184.50 in his computation of the work performed.

This overpayment was brought to the attention of the accountant, and it is understood that an adjustment will be made at the time of the next payment to the contractor.

Bid Deposit - Project 200-1: The previous audit report suggested that a check in the amount of \$100.00, which had been deposited with the Authority for plans and specifications, be declared forfeited and used to reduce the development costs. In this connection, it was noted that the Authority has advised the State Housing Board that this check had been declared forfeited and deposited in the bank.

An examination of the records of this project failed to reveal that any such deposit had been made. This fact was brought to the attention of the Executive Director, and upon further examination this check was located in the Authority's files. A deposit slip was then prepared, and this check has now been deposited in the bank.

It is recommended that all such future bid deposits be deposited in the bank, and that the Authority issue its own checks for the return of the deposits. In this manner an adequate record of the receipt and return of the bid deposits will be maintained.

Loam Removal - Project 200-1 Extension: It was noted that approximately twenty loads of loam had been taken from the site of this project and used on the Federal project. As of date of audit, there was no evidence to indicate that any payment had been received for this loam.

Vouchers: It was noted that many of the vouchers did not bear the signature of the Chairman of the Authority as certification of the propriety of the expenditure. It is recommended that no checks be drawn until the vouchers are properly approved.

Expense Advances: It was noted that this Authority has followed the practice of making out a check in favor of the Executive Director when funds for the estimated expenses of attending a housing convention are needed. The Executive Director, after cashing this check, then distributes the money to the other persons who are to attend this convention.

It is recommended that the Authority discontinue this practice and make individual advances in the future. In this manner the responsibility for the accounting of the advance will properly rest with each individual.

It was further noted that there were instances of a delay of several months in the submission of the itemized expenses incurred at these conventions. There was no explanation offered for this delay in the recording of expenses.

Legal Action by Former Member: It was noted that a petition for a Writ of Mandamus was filed in the Superior Court by a former member of the Authority against the Chairman and the member who had been appointed his successor. This petition sought to determine whether the former member or the new member was entitled to be considered a legal member of the Authority.

The former member's term expired on February 18, 1952, and the City Manager of Revere appointed his successor on February 25, 1952. This appointment was sent to the Municipal Council of Revere where it was ordered filed. The former member contended that since the Municipal Council failed to confirm this appointment, he was entitled to continue in office until such time as the Council approved the newly appointed member.

An opinion was requested from the Attorney General as to whether or not confirmation by the Municipal Council was necessary before the new appointee could legally become a member of the Authority. The Office of the Attorney General informed the Authority that it could not render an opinion, because it was restricted to advising on State matters, and suggested that the City Solicitor of Revere handle the matter.

The City Solicitor was requested to act as the Authority's representative in the legal proceedings, but because of the pressure of city business he was unable to undertake the case and suggested the employment of outside counsel.

On September 8, 1952 the petition for the Writ of Mandamus was dismissed, and a judgment for costs of \$17.50 was recovered against the former member. The fees for the outside counsel employed by the Authority amounted to \$1,202.41.

Insurance - Temporary Construction Projects: During the course of this examination, it was noticed that the Comprehensive Public Liability insurance applicable to the temporary units was canceled by the company which had issued the policy. This cancellation was to be effective as of March 10, 1952.

In this connection, it was observed that an advance premium of \$1,078.68 had been paid on this policy which covered the period from January 1, 1950 to January 1, 1953. It was further noted that under the terms of the policy the earned premium would be computed pro rata if the company canceled the policy. The question of a possible premium refund was brought to the attention of the Executive Director, and he has contacted the insurance company regarding this matter.

Surplus - Temporary Construction Projects: The records of the Authority reflected a surplus of \$10,680.00 for the year ending December 31, 1951. This amount was remitted to the City of Revere in January 1952.

It is estimated that the surplus for the calendar year 1952 will be approximately \$9,000.00. This amount should be transferred to the city in the early part of 1953.

SPRINGFIELD HOUSING AUTHORITY

REPORT NO. 53-H-28

Temporary Construction Projects

Tenants' Accounts Receivable - Chapman Court: As of October 31, 1952 the aggregate of the detail accounts as shown in the Tenants' Accounts Receivable ledger was not in agreement with the balance of the controlling account in the general ledger. This difference was traced and adjusted on the records of the Authority prior to the close of this audit.

Operating Budget: It was noted that this Authority had not prepared an operating budget for the fiscal year ending December 31, 1952. It is recommended that the Authority prepare annual budgets and submit them to the State Housing Board for approval, as required.

Surplus: It was noted that quarterly payments of the surplus from operations were made to the City of Springfield. These payments amounted to \$26,181.42 for the period under audit.

Project 200-1

Debt Service Payments: The Springfield Housing Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount is to be paid in one payment on the first day of the eleventh month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its second subsidy payment in the amount of \$58,300.00, which represents 2 1/2% of the total certified development cost. This payment was made by the Commonwealth directly to the Springfield Housing Authority's Fiscal Agent.

Accounts Payable - Development: Although this project has been in Permanent Financing for over two years, a liability still exists to the architect for the balance of his approved contract fee. This liability has not been paid because the architects have not submitted final "as built plans" which were held to be a part of the contract by the Authority. It is suggested that the State Housing Board take some action to settle this dispute in order that this long outstanding liability might be liquidated.

Project 200-2

Utility Costs: Attention is directed to the fact that the present charges to tenants for heat and hot water are insufficient to cover the actual costs of supplying these services.

The section of the Management Resolution adopted by the Authority which deals with utility charges to tenants reads as follows:

"Periodic adjustments based on actual usage will be made to these charges."

It is suggested that the Authority review the entire matter of utility charges and utility costs.

Project 200-3

Permanent Financing: This project transferred from Temporary to Permanent Financing on October 1, 1952 with the issuance of bonds in the amount of \$1,850,000.00. These bonds bear interest at the rate of 2 1/2% per year. A premium of \$29,174.50 was also received by the Authority.

The total development cost of this project as of September 30, 1952 was \$1,869,162.15. This amount was reduced by \$19,162.15 by applying a portion of the income earned during the Initial Operating Period. The net income earned during the Initial Operating Period amounted to \$46,862.15 and was distributed to the Management Account as follows:

| | |
|--------------------------------------|--------------------|
| Reserve for Insurance | \$13,000 00 |
| Reserve for Operations | 11,500 00 |
| Reserve for Payment in Lieu of Taxes | 3,200 00 |
| Reduction of Development Costs | 19,162 15 |
| | <u>\$46,862 15</u> |

Debt Service Payments: The Springfield Housing Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount is to be paid in one payment on the first day of the

eleventh month of the fiscal year.

Tenants' Accounts Receivable: As of October 31, 1952 the aggregate of the detail accounts as shown in the Tenants' Accounts Receivable ledger was not in agreement with the balance of the controlling account in the general ledger. This difference was traced and adjusted on the records of the Authority prior to the close of this audit.

Utility Charges: Attention is directed to the fact that the present charges to tenants for heat and hot water are insufficient to cover the actual costs of supplying these services.

The section of the Management Resolution adopted by the Authority which deals with utility charges to tenants reads as follows:

"Periodic adjustments based on actual usage will be made to these charges."

It is suggested that the Authority review the entire matter of utility charges and utility costs.

WORCESTER HOUSING AUTHORITY

REPORT NO. 53-H-29

Project 200-2 - Permanent Financing: The Development Account and the Administration Account of the Initial Operating Period were audited from November 30, 1951 to September 30, 1952. As of September 30, 1952 the balances of both accounts were transferred to the Management Account. At the end of the Initial Operating Period the balance in the cash account of the Development Fund was \$77,840.62. This amount was to be applied to the following items:

| | | |
|--|-------------------|--------------------|
| Contract Retentions | | \$ 68,274 55 |
| Accounts Payable | | 19,033 70 |
| Unamortized Note Premium | | 18,038 00 |
| Accrued Interest on Notes | | <u>255,558 33</u> |
| | | \$360,904 58 |
| Less: | | |
| Accounts Receivable | \$ 43,063 96 | |
| Investments | <u>226,000 00</u> | 269,063 96 |
| | | \$91,840 62 |
| Cash Available | | <u>77,840 62</u> |
| Deficit to be Paid from Management Cash (Permanent Financing) | | <u>\$14,000 00</u> |

The balance in the Administration Fund at the end of the Initial Operating Period was \$97,009.20. This amount was to be applied to the following items:

| | | |
|----------------------------------|---------------|--------------------|
| Accounts Payable | | \$43,063 96 |
| Prepaid Rents | | 838 46 |
| Income Tax Withholdings | | 255 60 |
| Retirement Fund | | 66 01 |
| Reserve for Insurance | | 11,000 00 |
| Accrued Payment in Lieu of Taxes | | 5,700 00 |
| Working Capital | | 511 70 |
| Operating Reserve | | <u>37,000 00</u> |
| | | \$98,435 73 |
| Less: | | |
| Accounts Receivable: | | |
| Tenants | \$914 83 | |
| Sundry | <u>511 70</u> | 1,426 53 |
| Cash Available | | <u>\$97,009 20</u> |

Attention is called to the fact that this available cash at the end of the Initial Operating Period was applied after an Operating Reserve of \$37,000.00 had been set up. This amount, which was established on the authority of the State Housing Board, was obviously not based on any predetermined requirement and was handled in this manner simply

because the cash happened to be available.

Attention is also directed to the fact that the cash balance in the Development Fund at the completion of the Initial Operating Period was not sufficient to meet its obligations; therefore, it will be necessary that \$14,000.00 be obtained from Management funds derived from operations under Permanent Financing.

The Worcester Housing Authority entered into Permanent Financing with the issue and sale of bonds in the amount of \$4,564,000.00. A premium of \$71,974.28, which reduced the total interest cost from \$2,708,900.00 to a net of \$2,639,925.72, was also received.

The Commonwealth may make an annual contribution of not more than 2 1/2% of the total Development costs. This contribution for the first year of operations under Permanent Financing is expected to be \$114,100.00 and was computed as follows:

| | |
|-------------------------|---------------------|
| Total Development Costs | \$4,564,000 00 |
| Percentage | 2 1/2% |
| Amount | <u>\$114,100 00</u> |

This contribution will be paid to the Merchants National Bank of Boston, the Fiscal Agent of the Worcester Housing Authority, on or about March 15, 1953.

Temporary Construction Projects - Transfer of Surplus: At the end of the calendar year 1951 the records of the temporary units indicated a surplus of \$2,477.14. This amount was transferred to the City of Worcester in April 1952.

Project 200-1 - Commonwealth Contribution: It was noted that on or about September 15, 1952 the Fiscal Agent of the Worcester Housing Authority, the National Shawmut Bank of Boston, received \$57,143.26 from the Commonwealth as its contribution for the second year under Permanent Financing.

This contribution was computed in the following manner:

| | |
|--|--------------------|
| 2 1/2% of the Development Costs | \$68,000 00 |
| Less: | |
| Portion of Prior Year's Surplus Reserved for Contribution Reduction | <u>10,856 74</u> |
| | <u>\$57,143 26</u> |

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the Fiscal Agent are held for six months and fifteen days before any payments are to be made. No arrangements have been made to have interest paid or credited by the Fiscal Agent for the use of these funds.

Project 200-2 - Certificate of Completion - Part II: This certificate has not yet been executed for this project, because a subcontractor has filed claims against the general contractor. When the litigations are resolved, Part II of the Certificate of Completion will be executed.

Project 200-1 - Development Fund - Outstanding Check: A check issued in October 1951 for \$500.00 was still outstanding as of the date of audit. It was learned that this check has been retained by the attorney of the Authority, because of the claim of a subcontractor against the payee thereof, one of the general contractors.

General: It was noted that this Authority has not paid any rental for office space since its inception, the Chairman having made available office space in a building owned by a banking institution with which he is associated.

LAWRENCE HOUSING AUTHORITY

REPORT NO. 53-H-30

Chapter 372 - Development Funds: There has been no activity in either of the two Development Funds for more than two years. It is understood that these accounts remain open because legal action by the contractor is pending.

It was learned that this case will be settled in the near future. The balances total \$12,115.34, and the amount remaining after the settlement of the suit is achieved will be turned over to the City of Lawrence.

Chapter 372 - Commonwealth's Subsidy Payments: The Commonwealth's payments of the annual 2% subsidies were checked to the records of the City of Lawrence. The payments to the date of audit totaled \$83,662.52 and represented 4 payments aggregating 8% of the Development Costs. A total of 10% of the Development Costs will ultimately be paid.

Chapter 372 - Tenants' Accounts Receivable: It was noted that of \$1,603.90 appearing as Tenants' Accounts Receivable on the date of audit, \$763.10 was due from tenants who had vacated their apartments and appeared to be uncollectible.

Chapter 200-1 - Permanent Financing - Miscellaneous Income: The records include an account termed "Other Project Income" which showed a total of \$1,186.96 on the date of audit. This account was analyzed and was found to include \$1,173.36 for excessive electricity used by the tenants and \$13.60 for miscellaneous items, such as Court Costs and reimbursements from tenants for replacement of lost keys. Inasmuch as the original charges for the foregoing items were made to Operating Expenses, it is suggested that these reimbursements be credited to the same accounts thereby reducing expenses.

Chapter 200-2 - Temporary Financing - Premium on Third Series Notes: A premium of \$127,005.67 was received when the Third Series Notes of \$2,370,000.00 was issued on July 24, 1952. The total premium was credited to an account termed "Interest in Development". These notes will become due July 28, 1953.

As a result of the foregoing, the records reflected an incorrect Development Costs as of the date of audit. In entering the entire premium in this manner the Interest in Development account showed a credit balance of \$78,499.18 whereas it should have actually shown a debit balance of \$15,010.49. Items of this nature should be amortized over the life of the obligation.

Contract Total: In checking the Architect's contract it was noted that the final fee submitted by the contractor amounted to \$109,094.09 while the final approved figure was only \$107,984.09. It is suggested that approval of the increase be secured from the State Housing Board before the final payment is made. To the date of audit \$80,000.00 had been paid on account.

STONEHAM HOUSING AUTHORITY

REPORT NO. 53-H-31

Project 200-1

Surplus from Operations: The surplus from operations for the first fiscal year under Permanent Financing amounted to \$5,981.40. In this connection, it was noted that the State Housing Board directed the Authority to transfer \$4,160.40 to the Operating Reserve and to reserve the balance of \$1,821.00 for the purpose of reducing the Commonwealth's contribution for the second year under Permanent Financing.

The balance in the Operating Reserve prior to this transfer amounted to \$8,484.54, an amount which was more than adequate at that time. Attention is directed to the fact that after this surplus transfer the balance of the Operating Reserve account totaled \$12,644.94, or a sum of \$1,755.06 less than the maximum amount which is to be reserved for this project. This maximum reserve was to have been set up over a five year period.

It is difficult to understand why the entire surplus of \$5,981.40 could not have been applied to a reduction of either the Commonwealth's contribution or the present schedule of rents.

Tenants' Security Deposit Refunds: It was noted that the refunds of the security deposits are not reflected on the vacating tenants' ledger sheets. Since the receipt of these deposits is shown on the ledger sheets, it is recommended that the disposition of the deposits be likewise recorded thereon.

Recording of Disbursements: It was noted that the checks drawn to correct deposits erroneously made in a fund were entered as "No Entry" in the cash book and were not reflected in the cash disbursements totals. It is recommended that in any such future disbursements the amount of the check be recorded in the cash disbursements total column.

Distribution of Expenditures: The examination of expenditures revealed the following errors in distribution:

1. Fees paid to the fiscal agent in connection with the payment of bond coupons were charged to the Repairs, Maintenance and Replacements account. This expense should have been charged to the Management account.
2. Two purchases of office supplies were charged to the Repairs, Maintenance and Replacements account. These expenditures should have been charged to the Management account.

Heating Contract: The Contract for Financial Assistance between the Authority and the Commonwealth states that the Authority may not enter into written contracts without the approval of the State Housing Board.

In this connection it was noted that one such contract was awarded without the required approval of the State Housing Board. It is understood that this contract is now being submitted for approval.

Project 200-2

Distribution of Closing Entries: It was noted that the liabilities which were set up at the time of entrance into Permanent Financing had been posted to the respective control accounts, but that the distribution to the subsidiary accounts has not yet been made. It is recommended that this distribution be made in order that the subsidiary accounts be brought into balance with the control accounts.

Deposits on Plans: It was noted that the forfeited deposits on plans were classified as miscellaneous income. These deposits should have been used to reduce the account charged with the cost of the plans.

Permanent Financing: It was noted that this project entered into Permanent Financing on October 1, 1952 with the sale of \$342,000.00 in bonds. These bonds were sold at an interest rate of 2 1/2%; a premium of \$5,393.34 was also received on this issue.

At the close of the Initial Operating Period a surplus of \$8,798.33 was on hand. This surplus was disposed of in the following manner:

| | |
|---------------------------------------|-------------------|
| Provision for Insurance Reserve | \$ 700 49 |
| Provision for Operating Reserve | 1,150 00 |
| Reduction of Development Costs | 6,897 84 |
| Provision for Unpaid Clerical Expense | 50 00 |
| | <u>\$8,798 33</u> |

WALPOLE HOUSING AUTHORITY

REPORT NO. 53-H-32

Budget - January 1, 1952 to December 31, 1952: It was noted that added expenditures for the installation of copper gutters in the amount of \$3,449.00 and the painting and staining of forty-five houses in the amount of \$3,518.00 brought the total of funds committed for this fiscal period to within \$323.00 of the estimated funds to be provided in the same period. Therefore, it will be necessary for the Authority to maintain rigid control of all further expenditures for the remainder of the period concerned.

Contracts Awarded - Project 200-1: It was noted that this Authority did not award a contract for the painting and staining of forty-five houses to the lowest bidder. The reason given was that this bidder was not the lowest qualified bidder, since the work would have to be performed by one man, and that it would have to be done after that person's regular working hours. This contract was then awarded to the second lowest bidder, or the lowest qualified bidder, at a price differential of \$38.00. This transaction was consummated with the approval of the State Housing Board.

It was further noted that the Authority had received bids for oil burner and hot water heater service, and that they had not awarded this contract to the lowest bidder. Furthermore, this service company had been paid in full on October 1, 1951, although the contract period extended from September 1951 to August 1952. Premature payments are always poor business practice. The payment should not have been made until the

work had been performed. The Authority had also violated the Contract for Financial Assistance in this matter, since it had awarded this contract without the prior approval of the State Housing Board.

The reasons given by the Authority for its action in not selecting the lowest bidder are as follows:

1. The service company is located in the next town, and gives 24 hour service. This company had already cleaned the 45 hot water heaters and 45 oil burners and replaced the filters in the heating units.
2. This company supplied the service during the development of the project for the contractor, and the Walpole Housing Authority was more than satisfied with the service. Calls are usually answered within an hour.

Development Fund - Overpayment: It was noted that the Walpole Housing Authority had contacted the architect with respect to the \$10.00 overpayment mentioned in the prior audit report. The Authority has since learned that this architectural firm has been dissolved, and it now appears that the Authority will not recover this overpayment.

Special Account: It was noted that the Town of Walpole had granted the Authority a sum of money to help defray the expenses incurred in the forming of the Authority. No record of this grant or of the expenditures made from this fund has been reflected on the books of the Authority. It is recommended that the Authority set this account up on the books.

Permanent Financing: The books of the Authority, after taking into consideration the Commonwealth contribution of \$12,350.00, reflected a surplus of \$5,102.01 for the first fiscal year under permanent financing. This surplus was disposed of in the following manner:

| | |
|--|-------------------|
| Transfer to Operating Reserve | \$3,538 01 |
| Transfer to Reduction of Annual Contribution Reserve | <u>1,564 00</u> |
| | <u>\$5,102 01</u> |

The Authority received a subsidy of \$10,786.00 for the second fiscal year under permanent financing. This amount represents the maximum subsidy of 2 1/2% of the certified development costs less the amount reserved for subsidy reduction from the surplus of the prior year.

PEABODY HOUSING AUTHORITY

REPORT NO. 53-H-33

Architect's Contract - Project 200-2: It was observed that the original contract which had been approved by the Authority and the State Housing Board had been canceled and that a new contract was entered into with the architect. This contract was likewise approved by the Authority and the State Housing Board.

In this connection, it was noted that the estimated fee of \$7,239.00 on the original contract appeared to be proper, as it was based on the fees to be paid for the duplex-type housing constructed under this project. However, the revised contract incorporated the fees to be paid on row-type housing and thus increased the architect's fee to \$16,604.00, an amount of approximately \$9,365.00 in excess of that estimated under the original contract. The architect's fees for the various types of housing have been established by the State Housing Board which must approve all such fees.

An attempt was made to determine the reason for the revision of the fee, but neither the State Housing Board nor the Authority could advance any reason for either the cancellation of the old contract or the substitution of the new contract at the increased fee.

It is interesting to note that the same architect's fee for Project 200-1 which has 68 units and is also of duplex-type construction amounted to \$13,228.94, whereas the fee for Project 200-2 which has but 24 units is to be \$16,604.00.

HAVERHILL HOUSING AUTHORITY

REPORT NO. 53-H-34

Annual Report - General: Section 26U of Chapter 121 of the General Laws, as

amended, provides that the housing authorities shall make an annual report in the month of January to various state and municipal officials. It was noted that as of the date of audit the report for the calendar year 1951 had not yet been prepared by this Authority. This matter was discussed with the Executive Director and it is understood that she is working on the compilation of this report.

Proration of Central Office Expense - General: It was noted that the entire expense of the fuel oil used in the heating of the central office had been charged to Project 200-2. It was also noted that the rental charge for a safety deposit box had been likewise charged even though both projects had the use of it.

It is suggested that all such central office expenses be prorated on the unit basis, as follows:

| | | |
|---------------|------------------|---------------|
| Project 200-1 | 36 units | 34.6% |
| Project 200-2 | 68 units | 65.4% |
| | <u>104 units</u> | <u>100.0%</u> |

Tenants' Security Deposits - General: It was noted that only 24 of the 68 tenants residing in Project 200-2 had paid their security deposits. It was further noted that deposits had not been received from any of the tenants living in Project 200-1.

It is recommended that the Authority adopt a consistent policy with respect to the making of security deposits.

Pay Roll Distribution - General: As of the effective date of the second annual budget for Project 200-1, covering the period from October 1, 1952 to September 30, 1953, the salaries of the two maintenance men have been prorated as follows:

| | |
|---------------|-------------|
| Project 200-1 | 35% |
| Project 200-2 | 65% |
| | <u>100%</u> |

There appears to be no basis for this method of proration, because each project has been assigned one man who does all the maintenance work for that particular project. It is, therefore, recommended that the salaries of the two maintenance men be charged in full to the project to which each man is assigned.

Adjusting Entries - General: It was noted that the Tenants' Accounts Receivable control accounts of both projects were not in agreement with the aggregates of the debit detail accounts of the tenants. The differences were due to the following errors:

Project 200-1:

1. Incorrect rent roll in January 1952.
2. Carrying forward of an incorrect balance in one account.

Project 200-2:

1. Erroneous recording of a security deposit.
2. Incorrect rent roll in May, June and October 1952.
3. Cash overage of \$1.00 in January 1952.
4. Erroneous posting of prepaid rent.

It is suggested that trial balances of the detail accounts be taken monthly and that the totals thereof be reconciled with the controlling accounts.

Rent Due - General: As of the date of audit, the records of Project 200-1 reflected rent due from tenants in the amount of \$1,196.56. In this connection it was observed that \$736.04 was owed by former tenants, and that one of these accounts amounting to \$268.35 has been outstanding for over one year. The records of Project 200-2 indicated that a total of \$426.92 is due from tenants residing in the project.

It was noted that the following policy is used by the Authority in connection with rental collections: On the 15th day of each month, the Executive Director notifies each delinquent tenant by mail to pay the rent due, or to notify the Authority of the reason for delay. If this letter is ignored, a second letter is sent to the tenant. If no reply to the second letter is received, legal action is then taken. It was also noted that at its meeting on January 9, 1953, the Authority adopted a stricter policy on collections, since

eviction notices will now be sent to all tenants who owe two full months rent,

Operations under Permanent Financing: The deficit from operations for the first fiscal year under Permanent Financing, after taking into consideration the Commonwealth's contribution of \$12,475.00, amounted to \$740.68. In this connection, it was noted that a surplus of \$988.00 was estimated in the budget for this same period.

The deficit was primarily due to the excess of the actual expense of fuel oil and electricity over the amount set up in the budget. The excessive amount of electricity used was not attributable to the tenants; this electricity was used by the Authority in hallways, boiler rooms, etc. The deficit incurred was disposed of by a transfer from the Operating Reserve.

Because of the high unit cost involved in the construction of this project, it will undoubtedly be necessary for this project to receive the maximum subsidy of \$12,475.00 for many years to come. It is, therefore, suggested that the Authority make every effort to keep the expenses of this project within the amount budgeted therefor.

Payments to Fiscal Agent - Project 200-1: It was noted that the Authority had overpaid the fiscal agent \$5.08 during the first fiscal year under Permanent Financing. This overpayment will be adjusted by a corresponding decrease in the payments to the fiscal agent in the second fiscal year.

Change Order #14 - Project 200-2: Attention is directed to the fact that the Authority had not reserved the necessary funds from the Development Account at the time of Permanent Financing for the payment of this change order of \$169.32. The failure to do so was attributable to the fact that the Authority had no record of any such change order, because at that particular time the order was in the possession of the State Construction Adviser for his approval. It now appears that the funds for the payment of this change order will have to be obtained from the amount of working capital set up at the time of Permanent Financing.

Permanent Financing - Project 200-2: The Initial Operating Period of this project ended on June 30, 1952 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue, at an interest rate of 2 1/4%, with a premium of \$15,612.89, was in the aggregate amount of \$809,000.00. This amount represented the total development cost less the surplus of \$1,098.80 earned during the Initial Operating Period.

It was further noted that the books for the Initial Operating Period were closed as of June 30, 1952 and that new accounts under Permanent Financing were opened as of July 1, 1952.

This project will receive a subsidy of 2 1/2% of the certified development costs as its first annual contribution from the Commonwealth. On November 20, 1952, the fiscal agent of the Authority received 25% of this subsidy, \$5,056.25, from the Commonwealth. The balance will be remitted at a later date.

Insurance Payment - Project 200-2: It was noted that check #31 in the amount of \$32.76 was issued to pay for insurance coverage on Project 200-1. It is, therefore, recommended that Project 200-1 reimburse Project 200-2 for this erroneous disbursement.

FALL RIVER HOUSING AUTHORITY

REPORT NO. 53-H-36

Temporary Construction Projects - Surplus: It was noted that two payments of \$7,964.84 and \$264.61, which represented the surplus from operations for the year ending December 31, 1951, were made to the City of Fall River during the period under audit.

The surplus from operations for the first eleven months of the year ending December 31, 1952 amounted to \$13,867.14. It is understood that the entire surplus for this year will be turned over to the City of Fall River sometime after the close of the year.

Temporary Construction Projects - Termination: The Authority, after carefully reviewing all phases of the usefulness of these units, authorized the Executive Director to contact the Mayor and City Council and to recommend that some action be taken towards planning the consolidation of the families living in these units in order that the project might be vacated and demolished in stages. During the course of this audit, the approval for this consolidation was granted.

Temporary Construction Projects - Accounts Receivable, Sundry: It was noted that \$26.67 of the balance reflected in this account represented amounts owed by former tenants because of overpayments by the Authority on account of refunds of security deposits and prepaid rents. It is understood that the Authority is attempting to recover these overpayments.

Chapter 200 Projects - Utilities: A comparison of the actual utilities costs with the amounts charged to tenants for utilities revealed that some consideration might be given to the possibility of reducing the charges to the tenants.

Chapter 200 Projects - Review of Tenants' Incomes: During the course of the audit, all tenants' incomes were reviewed and reclassified as of February 1953.

In this connection it was noted that a number of tenants were given a temporary extension of their dwelling leases, because their incomes had exceeded the maximum limit for continued occupancy. Since these tenants were no longer eligible for residence in the projects, they are expected to find living quarters elsewhere. The granting of this extension provides for continued occupancy on a temporary basis, at a rental comparable with the income, in order that these tenants might have the opportunity to look for another home.

Chapter 200 Projects - Architects' Fees: During the course of the audit, it was noted that the Authority had submitted computations of these fees to the State Housing Board for review and approval. As of the date of audit the approved fees had not yet been received from the State Housing Board.

Project 200-1 - Permanent Financing: The Initial Operating Period of this project started November 6, 1950, the date of the first tenancy, and ended on September 30, 1952 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue, at an interest rate of 2 1/2%, was in the aggregate amount of \$1,424,000.00, the total adjusted development cost of the project. A premium in the amount of \$22,456.48 was also received.

It was also noted that the profit from operations during the Initial Operating Period, \$30,125.72, was used to reduce the amount necessary under the bond issue and that \$19,400.00 was used to provide for a so-called Operating Reserve. These adjustments were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and mainly reserved for the payment of invoices previously incurred and accrued interest on notes outstanding under Temporary Financing.

Project 200-1 - Delay in Final Payment: Although this project has been completed for some time, the final payment to the general contractor is being withheld because of legal difficulties between the general contractor and one of the subcontractors.

Project 200-2 - Accounts Payable, Sundry: It was noted that \$3.50 of the balance reflected in this account represented the security deposit of a person who is no longer a tenant of the project.

Since the Authority has exhausted all possible efforts in attempting to locate this individual, it is recommended that the State Housing Board be requested for authorization for the disposition of this balance which has been carried on the books for over two years.

Project 200-2 - Commonwealth Contribution: It was noted that the State Housing Board directed the Authority to reserve its entire surplus for the second fiscal year under Permanent Financing, ending September 30, 1952, for the purpose of reducing the amount of the Commonwealth contribution for the third fiscal year ending September 30, 1953. This surplus which amounted to \$21,833.89 will reduce the Commonwealth's contribution to \$26,566.11.

MARBLEHEAD HOUSING AUTHORITY

REPORT NO. 53-H-37

General

Rental Charges: The Management Program adopted by this Authority and approved by the State Housing Board provides that rental charges will be based on a per cent of the tenants' incomes after certain deductions. The per cent applied varies with the

family status of the individual tenant.

It was noted that several surveys of the tenants' incomes had been made, and that rental adjustments were only applied when the Authority considered the income changes as substantial. In this connection it was observed that income fluctuations were ignored in rental computation unless they affected the rental charge by \$10.00.

It is suggested that the rates set up in the Management Program be applied in all cases to the income shown in the surveys.

Proration of Expenses: An examination of the expenditures revealed that the Authority is now prorating the auto expense and telephone costs of the Executive Director between the two projects. It was noted that prior to this method of proration all of these expenses had been charged to Project 200-2. It is, therefore, recommended that an adjustment be made for the proration between the projects of these particular expenditures which were wholly charged to Project 200-2.

Project 200-2

Insurance: A Prepaid Insurance account in the amount of \$4,032.46 was noted. An examination of this account disclosed that of this amount \$1,565.52 had expired, and that the actual prepaid insurance amounted to \$2,466.94.

It is suggested that this account be adjusted periodically in the future. In this manner the records of the Authority will reflect the actual expense incurred and the true unexpired balance of the Prepaid Insurance account.

Premium on Notes: A premium in the amount of \$43,323.00 received on the sale of the Third Series Notes was credited directly to the development cost. The premium is, in effect, an adjustment of the interest expense and, as such, a portion of the interest charge should be reduced by the appropriate amortization of the premium over the life of the notes. As of date of audit the interest expense included in the development cost was understated in the amount of \$11,401.20.

Distribution of Expenses: An examination of the distribution of expenses was made and the following discrepancies were noted:

1. A bill for plumbing and heating repairs in the amount of \$108.80 which should have been charged to the Repairs, Maintenance and Replacements account had been charged to the Dwelling Utilities account.
2. Electric light bills in the amount of \$5.50 which should have been charged to the Dwelling Utilities account had been charged to the Repairs, Maintenance and Replacements account.

It is recommended that the Authority make the necessary adjusting entries.

Miscellaneous Income: It was noted that an overdeposit of \$5.00 had been made in the bank and that this amount was subsequently credited to the Miscellaneous Income account. It was later found that the overdeposit was caused by an error in the totaling of the rent receipts for one day and that the \$5.00 is due to an employee of the Authority. It is recommended that the employee be reimbursed for this amount.

WELLESLEY HOUSING AUTHORITY

REPORT NO. 53-H-38

Project 200-1

Deposits on Plans and Specifications: The balance of \$100.00 in this account represents two deposits received from contractors prior to the bidding for the construction of this project. As a considerable period of time has elapsed since these particular plans and specifications were issued, it is quite evident that these deposits have been forfeited. It is recommended that this account be closed out.

Repairs, Maintenance and Replacements: An examination of this account disclosed that two of the items charged therein should not have been classified as ordinary repairs or maintenance. One of the items was an adjustment of \$440.00 on the outside painting of the cinder blocks, and the other in the amount of \$365.00 applied to the installation of

a drainage ditch.

Since there is a surplus of cash in the Development Fund, as a result of the accounts payable being overestimated at the time the project was placed in Permanent Financing, it is recommended that these charges be reclassified and charged to the Accounts Payable - Development Account. A cash transfer would likewise have to be made from the Development Fund to the Administration Fund.

Accounts Payable - Development: This account was established when this project was placed in Permanent Financing and represented the liabilities which were estimated to be chargeable to the development costs.

An analysis of this account disclosed that as of the date of audit it was made up of the following:

| | |
|--|-------------------|
| Due to 200-1 - Management | \$1,077 46 |
| Due to Architect | 4,945 23 |
| Overestimate of Accounts Payable at Time of Permanent Financing | <u>1,330 37</u> |
| | <u>\$7,353 06</u> |

If the previous recommendation in this report is complied with, the overestimate of accounts payable will be reduced to \$525.37.

Since a year and a half have elapsed since this account was established and since it now appears that all the liabilities applicable to the period of development have been provided for, it is recommended that this amount of \$525.37 be transferred to the Operating Reserve account. A like amount of cash should also be transferred from the Development Fund to the Administration Fund.

Excessive Cost of Electricity: In order to obtain the lower commercial rate for electricity, this Authority has installed a master meter to measure the electricity used by the project. This electricity is supplied by the electric light department of the Town of Wellesley.

An examination of the utility costs disclosed that the cost of electricity per unit for the calendar year 1952 was approximately \$8.50 per month. The average electricity charge to the tenants, based upon an estimated usage rendered by the above-mentioned department, was approximately \$4.56 per month per unit.

Because of this exorbitant actual cost, the Authority has on various occasions requested the electric light department to test the accuracy of the master meter. The Authority has further requested the installation of the test meters in a few units in order to determine whether or not the tenants were using this excessive amount of electricity. As of the date of audit, the Authority has received no co-operation from the electric light department.

In view of the fact that the Authority is one of the larger consumers of electricity in the Town of Wellesley, it is difficult to understand why the electric light department has not extended its co-operation or attempted to reconcile the wide gap between its estimated cost and the actual cost of the electricity.

Disposition of Surplus - First Fiscal Year under Permanent Financing: The amount of surplus from this project's operations for the first fiscal year under Permanent Financing which ended on June 30, 1952, was determined to be \$5,990.05.

On the instructions of the State Housing Board, this surplus was disposed of by transferring \$4,044.05 to the Operating Reserve account and \$1,946.00 was reserved for the purpose of reducing the Commonwealth's contribution for the second fiscal year under Permanent Financing.

Subsidies Received - Permanent Financing: As of the date of audit, this Authority has received two subsidy payments from the Commonwealth. The subsidy for the fiscal year ending June 30, 1952 amounted to \$25,925.00. This amount, which represented $2\frac{1}{2}\%$ of the final development cost, was the maximum subsidy permissible under the statute. The subsidy for the second fiscal year which ends on June 30, 1953, was received in December 1952. This subsidy was in the lesser amount of \$23,979.00 and was arrived at by reserving a portion of the surplus of the first fiscal year, as noted in the previous comment.

Temporary Construction Projects

Surplus Transfers: The surplus from operations for the year ended December 31, 1951 amounted to \$10,614.51. This amount was remitted to the Town of Wellesley in January 1952.

The surplus for the year ended December 31, 1952 was determined to be \$15,190.31. This amount will be transferred to the Town of Wellesley early in 1953.

LYNN HOUSING AUTHORITY

REPORT NO. 53-H-39

General

Approval of Vouchers: In checking vouchers for proper approvals it was noted that none of the vouchers for the month of June 1952 had been approved and that several in December 1952 had not been approved.

It is suggested that these be brought to the attention of proper parties so that necessary approvals may be entered.

Miscellaneous Income: In checking Washing Machine collections it was noted that this income had been accepted from the concern operating this concession without verification. This matter was discussed with the parties concerned, and it is understood that henceforth the Company representative will report to the Authority office and will be assigned an authorized employee to accompany him in making his collections from the washing machines.

Pay Roll: The pay rolls were checked on a test basis. It was noted that the forms W2 required by the Director of Internal Revenue were not on file for nine employees. It was also noted that an employee apparently doing maintenance work was classified on the pay roll as an investigator.

The employees are paid weekly and are paid on Thursday for the week ending the previous Friday. The accounts covering the pay rolls are charged in the general ledger on the cash basis. Because of this arrangement it is possible for a complete week's pay roll to be charged in a succeeding month. At the end of each fiscal year this last week's pay roll should be accrued so that the records will represent accurate costs.

Chapter 200 - Project 200-1

Development Fund Cash - Accounts Receivable and Payable: It was noted that the following balances still appear in the records as of December 31, 1952, two years after the project went into Permanent Financing:

| | |
|---------------------------------|-------------------|
| Cash - Development | \$4,414 33 |
| Accounts Receivable Development | 9 10 |
| Accounts Payable Development | <u>\$4,423 43</u> |

Obviously all Development accounts payable should have been closed during this period. It was learned that there have been no known liabilities since May 1951. It was further learned that these amounts were originally established on an estimated basis without any indicated breakdown.

Ordinarily, this unexpended fund would revert to the Administration Fund and be credited to the Surplus Account. However, when this matter was brought to the attention of the accountant at the State Housing Board, it was suggested that it be credited to the Operating Reserve account because it was only about 50% of its maximum, and the adjustments were accordingly made.

Income on Investments: It was noted that the records show \$68.75 being recorded as income on investments and the Balance Sheet indicated a credit in the Unearned Interest account of \$50.17.

In this connection the Unearned Interest account should have been credited in the amount of \$62.50 and the Income Account charged with \$12.33, the amount of purchased interest. It is suggested that the necessary adjustments be effected.

Federal Tax: It was noted that a federal tax of \$1.74 had been paid on a purchase of electric bulbs. Inasmuch as Housing Authorities are exempt from such taxes it is suggested that steps be taken to obtain a refund in the amount indicated.

Chapter 200 - Project 200-3

Coupon Payments: Attention is called to the fact that five coupons due April 1, 1952 and reported as paid by the Fiscal Agent could not be located, although they had been checked as having been received. It is suggested that greater care be exercised in the filing of such items.

Chapter 200 - Project 200-4

Dwelling Rent Income: It was noted that the control figures for December 1952 Dwelling Rent Income were incorrectly entered, resulting in errors in the following accounts:

| | |
|---------------------------------------|---------|
| Dwelling Rent Income | \$33 12 |
| Repairs, Maintenance and Replacements | 18 12 |
| Security Deposits | \$15 00 |
| Tenants' Accounts Receivable | 36 24 |

These errors affected the balance of the Tenants' Accounts Receivable and the differences had not been located by the Authority bookkeeper.

The Security Deposits and Repairs, Maintenance and Replacements accounts were adjusted during the course of the audit. The other variances should be identified and necessary adjustments made.

Development Costs - Administrative Costs a/c #1410: Charges in the amount of \$2,972.25 had been made directly to this account for Furniture and Fixtures. This charge was incorrect as it should have been made from the Revolving Fund and the amount distributed proportionately to all the projects.

Title V - Temporary Projects

Security Deposits: It was noted that a security deposit of \$10.00 had been incorrectly deposited in the Administration Fund. This incorrect deposit was made in June 1952 and was set up as an Account Payable to the Security Deposit Account. It had not been transferred by December 31, 1952.

Accounts Payable: The Accounts Payable account included an item of \$2,000.00 which had been established for the purchase of a street sweeper. Inasmuch as the Title V apartments were being demolished to a great extent, and in a few months will only include eight apartments, it is suggested that this expenditure might well be reconsidered.

Delinquent Accounts Receivable (Tenants'): It was noted that there were several balances due from tenants who had vacated apartments and could apparently not be located. It is suggested that any balances actually determined to be uncollectible be charged off against the Reserve for Vacancy and Collection Losses.

Revolving Fund

In checking the Revolving Fund it was noted that the monthly Federal Accounts expenditures were in excess of the advances to the fund. This matter was brought to the attention of the proper personnel and this advance was increased while the audit was in progress.

General

It was noted that this Authority employs a resident accountant and a bookkeeper, and also engages the services of a private accountant at a monthly fee of \$112.50, exclusive of Federal funds.

MONTAGUE HOUSING AUTHORITY

REPORT NO. 53-H-40

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. To

the date of audit this amount has been paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of the month in each of the first nine months and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year. As of January 1, 1953, the start of the third fiscal year under Permanent Financing, this amount is to be paid in one payment and is to be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year.

Commonwealth Contribution - Second Fiscal Year: This Authority has received \$7,144.00 as its second annual Commonwealth Contribution. This amount is \$981.00 less than the maximum subsidy of 2 1/2% of the development cost which was received for the first fiscal year under Permanent Financing. This decrease was effected by applying a portion of the first fiscal year's surplus to the reduction of the maximum subsidy.

The operating surplus for the first fiscal year under Permanent Financing amounted to \$2,825.25 and was distributed on the advice of the Chairman of the State Housing Board, as follows:

| | |
|---------------------------------------|-------------------|
| Transfer to Operating Reserve | \$1,844 25 |
| Transfer to Commonwealth Contribution | |
| Reduction Reserve | 981 00 |
| | <u>\$2,825 25</u> |

Deficit from Operations - Second Fiscal Year: The deficit from operations for the second fiscal year under Permanent Financing amounted to \$166.55. This loss was primarily due to the expense of \$2,316.63 incurred for the purchase of eighty combination storm windows and screens.

In this connection it was noted that the Authority and the Chairman of the State Housing Board considered this a necessary expenditure because of the geographical location of the project.

Tenants' Rents: The examination of the rental charges to tenants revealed several instances wherein the rental charges were too low in relation to the tenants' reported incomes. It is suggested that more care be taken in the application of the graded rent schedule to the tenants' reported incomes.

FRAMINGHAM HOUSING AUTHORITY

REPORT NO. 53-H-41

General: The Framingham Housing Authority has paid to the Town of Framingham the surplus from the operations of the Title V and Chapter 372 projects for the 1952 calendar year. Payments in the amounts of \$6,491.24 and \$16,697.87, respectively were made on February 3, 1953.

Subsidy Payments: The Chapter 372 project was entitled to receive total subsidy payments of \$28,025.80 which were based on 10% of the expenditures in the amount of \$280,258.19. These payments were paid over a five-year period which began in 1948. The last payment of \$5,605.16 was paid in September 1952.

Projects 200-1 and 200-2

Commonwealth's Contributions: The Commonwealth may make an annual contribution of not more than 2 1/2% of the final development costs. These contributions for the second year of operation under permanent financing totaled \$27,649.00 for project 200-1 and \$19,563.00 for project 200-2 and were computed, as follows:

| | <u>200-1</u> | <u>200-2</u> |
|-------------------------------|--------------------|--------------------|
| 2 1/2% of Development Costs | \$33,400 00 | \$21,000 00 |
| Deduct: | | |
| Transfer Part of First Year's | | |
| Surplus for Reduction Reserve | 5,751 00 | 1,437 00 |
| | <u>\$27,649 00</u> | <u>\$19,563 00</u> |

It was noted that these contributions were paid to the First National Bank of Boston, the fiscal agent of the Framingham Housing Authority, on December 2, 1952.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for 6 months and 28 days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Tenants' Accounts Receivable: The total of the Tenants' Accounts Receivable outstanding as of January 31, 1953 was \$3,500.11 for all projects as follows:

| | |
|---------------------------------|-------------------|
| Temporary Construction Projects | \$ 853 54 |
| Permanent Construction | 242 50 |
| Project 200-1 | 1,694 63 |
| Project 200-2 | 709 44 |
| | <u>\$3,500 11</u> |

Of the foregoing, \$1,410.25 pertained to accounts belonging to tenants who had vacated the projects for some time prior to the date of audit. An analysis of the accounts involved follows:

| | |
|---------------------------------|-------------------|
| Temporary Construction Projects | \$ 197 04 |
| Permanent Construction | 92 50 |
| Project 200-1 | 577 75 |
| Project 200-2 | 542 96 |
| | <u>\$1,410 25</u> |

Of the total owed for accounts receivable where units had been vacated, \$935.96 was owed by three former tenants in the respective amounts of \$393.00, \$340.18, and \$202.78. The remaining \$474.29 was owed by nine former tenants, ranging in amounts from \$12.50 to \$86.50.

From the foregoing, it appears that this Authority has been somewhat lenient towards its delinquent tenants and it is suggested that a more stringent policy should be adopted by it in this respect.

General - Ice Boxes: The Framingham Housing Authority has donated 23 ice boxes to a charitable institution which is located in Boston. These ice boxes were accumulated as the result of being replaced with electric refrigerators purchased by the tenants of the Temporary Construction Projects.

Miscellaneous Income: The previous audit report commented on the fact that a credit allowance of \$4,400.00 which had been received by the Authority had not been properly entered. It was noted that this matter was satisfactorily adjusted.

METHUEN HOUSING AUTHORITY

REPORT NO. 53-H-42

General

Subsidiary Records: It was apparent that subsidiary records are not properly functioning. In this connection it was noted in certain instances rent roll monthly totals did not agree with the charges to the Tenants' Accounts Receivable and the credits to Dwelling Rent Income. It was also noted that charges to the tenants' ledger did not agree with the total postings to the control account. The totals from the summary sheets were used as posting media to the Cash, Income, and Tenants' Accounts Receivable accounts. It is, therefore, recommended that direct postings be made from regular subsidiary records, and in this manner the number of errors will be materially reduced.

Rent Receipts: Several errors were noted in connection with the issuance and recording of rent receipts. These included the following:

1. Duplicate rent receipt numbers were recorded in the cash book at the close of one month and at the beginning of a succeeding month.
2. A receipt which was issued to a tenant in the amount of \$23.80 even though \$33.80 had actually been received and deposited.

3. A receipt was issued to a tenant in the amount of \$38.00 although the \$36.00 was actually collected and deposited. The \$2.00 discrepancy should be adjusted forthwith.
4. A tenant paid his rent and the cash was properly deposited but no receipt was issued.
5. During one month \$47.00 was collected for Tenants' Security Deposits, yet only \$42.00 was recorded through rent receipts.
6. A receipt was issued for an electricity item of \$7.20, although only \$4.40 was collected and deposited.

Cash Deposits: It was noted that the cash deposits for particular dates did not reconcile with rent receipts issued on those particular days. It was further noted that a part of the receipts was held as a change fund, even though a \$50.00 fund had already been provided for that purpose. It is suggested that the daily deposits agree in total with the actual receipts issued for that day.

Tenants' Ledger Sheets: It was noted that on some of the tenants' ledger sheets, names of vacating tenants had been obliterated and the new tenant's name substituted. In a few instances three or four names appeared on one ledger sheet. This practice obviously complicates the control and audit of these accounts. It is, therefore, recommended that separate ledger sheets be used for each tenant. Upon the termination of the respective leases the ledger sheets should clearly indicate the dates and any other pertinent financial information with particular respect to refunds, security deposits, etc.

Project 200-1

Award of Painting Contract: It was noted that the Authority received the following bids in response to an invitation for bidders to paint the exterior of this project:

| <u>Bidder</u> | <u>Amount</u> |
|---------------|---------------|
| A | \$5,460 00 |
| B | 7,800 00 |
| C | 8,945 00 |
| D | 9,800 00 |

It was learned that the lowest bidder immediately withdrew his bid, and after investigation the Authority awarded the contract to Bidder C. In this connection the Executive Director stated that Bidder B was not awarded the contract because of his unsatisfactory performance of other contracts with the Town of Methuen. It was further learned that Bidder B at that time, brought a writ of mandamus against the Authority which he later withdrew.

Accounts Payable - Development: It was noted that the United States Director of Internal Revenue had placed a Tax Levy on a balance of \$758.21 which was owed to the general contractor. These funds will remain in this category until the matter is finally adjudicated.

Payment in Lieu of Taxes: It was noted that the first payment in lieu of taxes was made to the Town of Methuen and covered the period from May 1950 to December 1950. Another payment which was made in September 1952 and allegedly covered the period from October 1950 to September 1951, included duplicate payments totaling \$333.57 for the period between October 1950 and December 1950. It is recommended that this matter be forthwith adjusted.

Contributions for Pension Fund: The budget for the fiscal year ended September 30, 1953 provided for a quarterly accrual to the Pension Fund of \$43.00. In this connection it was noted that this entry has not been made and in addition the accrual for the prior years exceeded the actual expenditures in the amount of \$23.00. It is recommended that the necessary adjustments be effected.

Distribution of Expenses: The following errors in the distribution of expenses were noted:

1. Telephone bills totaling \$133.12 should have been charged to Management Expense but were charged to the Operating Services account.
2. Postage items totaling \$12.00 that should have been charged to Management Expense were erroneously charged to the Operating Services account.
3. A travel expense item in the amount of \$10.00 that should have been charged to Management Expense was charged to the Repairs, Maintenance and Replacements account.

Vacancy Loss: Attention is called to the fact that vacancy losses are being computed incorrectly. In this connection the State Housing Board prescribes that vacancy losses should be computed on the rentals paid by the vacating tenant. It is suggested that this basis be henceforth used by the Authority. It was noted that rent receipts purchased for use by the Chapter 372 project had been paid for by funds from the 200-1 project. A transfer of funds should be made to correct this situation.

Adjustments of Rentals: It was noted that adjustments in rentals were made in certain instances without proper information having been inserted in the respective tenant's folders. It is also suggested that information, etc., regarding future changes in rental rates, etc., be filed in the individual tenant's file folders.

NEW BEDFORD HOUSING AUTHORITY

REPORT NO. 53-H-43

Local Fund: This Authority received \$3,800.00 from the City of New Bedford in 1939 for preliminary expenses of the Authority. This money was an outright grant and is not subject to reimbursement.

It is understood that disbursements are made from this fund for travel and other miscellaneous expenses.

There is a separate bank account for this fund and as of January 31, 1953, the balance on deposit was \$1,108.22.

Disposition of Surplus: During the period under audit disposition of the surpluses of each project was made with the authorization of the State Housing Board, as follows:

| | <u>Fiscal Year Ending</u> | <u>Amount of Surplus</u> | <u>To Operating Reserve</u> | <u>To Reduction of Commonwealth Contribution</u> |
|---------------|-------------------------------|------------------------------|-------------------------------------|--|
| Project 200-1 | December 31, 1951 | \$ 8,489 87 | \$5,133 87 | \$ 3,356 00 |
| | December 31, 1952 | 7,014 46 | - | 7,014 46 |
| Project 200-2 | September 30, 1952 | 11,368 89 | - | 11,368 89 |
| Project 200-3 | March 31, 1952 | 6,909 81 | 4,684 81 | 2,225 00 |

Commonwealth Contributions: As of the date of audit, the Authority had either received or had been officially advised of the annual Commonwealth Contributions, as follows:

| | <u>For the Fiscal Year Ending</u> | <u>Maximum Contribution</u> | <u>Amount of Contribution Authorized</u> |
|---------------|---------------------------------------|---------------------------------|--|
| Project 200-1 | December 31, 1952 | \$24,000 00 | \$20,644 00 |
| Project 200-2 | September 30, 1953 | 36,400 00 | 25,031 11 |
| Project 200-3 | March 31, 1953 | 19,925 00 | 17,700 00 |

Utilities: It was noted that the actual utility costs during the audit period to the Authority exceeded the estimated costs upon which charges to tenants are based, by a substantial amount. This variance was attributed to electrical line losses and management use, to the increased cost of gas used for heating and cooking; and to failure of the equipment to control heating causing excess consumption and heating labor costs.

In this connection it was noted that surcharges had been made to tenants for excess electricity costs, but no surcharges had been made for excess gas costs.

It was also learned that the heating system had been surveyed by engineers and that suggested changes in the heating control equipment were now in process of being completed and it is hoped that when these changes are made, the present costs caused by equipment failure and heating labor will be reduced. Equitable surcharges will then be made for excess gas costs if deemed necessary.

Development Accounts Payable: It was noted that the balances of the Development Accounts Payable accounts, in many instances, were incorrect because when the projects went into Permanent Financing the amounts owing were overestimated.

It was also noted that several charges to these accounts should have been properly charged to Management expenses.

It is suggested that these accounts be adjusted in such manner as the State Housing Board may prescribe.

Ineligible Tenants: It was noted that in the three projects there were seven tenants who had become ineligible for continued occupancy because their income had apparently exceeded the continued occupancy limit. In each of these instances the tenants have been served notices to vacate the premises which they presently occupy.

MATTAPOISETT HOUSING AUTHORITY

REPORT NO. 53-H-44

Delay in Acceptance of Project: As of February 28, 1953 this project had not been accepted. Final acceptance has been postponed until litigation by interested parties has been completed.

Commonwealth Contribution: During the period under audit a Commonwealth Contribution amounting to \$2,462.75 was received for the third fiscal year ending September 30, 1953.

This amount is \$537.25 less than the maximum $2\frac{1}{2}\%$ subsidy of \$3,000.00 which was received for the second fiscal year under permanent financing. This difference represents the project's surplus for the second fiscal year's operations which was transferred to the Contribution Reduction Reserve upon the advice of the State Housing Board.

Ineligible Tenants: From a review of the financial records of the tenants it was indicated that two of them were ineligible for continued occupancy as of February 28, 1953. This ineligibility was due to the fact that their income appeared to exceed the continued occupancy limit, and it was further noted that one had continued to remain in the project for ten months after becoming ineligible.

It was indicated by the Executive Director that a lack of eligible applicants accounted for the continued occupancy by this ineligible tenant.

NEWBURYPORT HOUSING AUTHORITY

REPORT NO. 53-H-45

Refunds to Tenants: It was noted that a tenant who vacated his apartment November 20, 1952, and had paid the complete rental for the month of November was not issued a refund for the reason that the apartment remained vacant until after December 1, 1952. It was further noted that other tenants in comparable circumstances have received refunds. It is, therefore, suggested that a uniform policy be adopted in this regard.

Utility Charges: It was noted that charges to tenants for utilities during the audit period exceeded their actual cost by \$213.13. This excess was due to a rate adjustment which had been made by the utility company for the Authority. It is suggested that the matter of returning these excess collections to the respective tenants be considered.

Shortage in Inventory: An inventory of tools and equipment was taken and items aggregating \$81.35 in value could not be located. It was learned that these items have been missing for more than a year. It is suggested that greater care be exercised in storing this equipment.

Federal Income Tax Penalty: It was noted that an assessment of \$8.01 was made by the Director of Internal Revenue against this Authority because of tardiness in filing quarterly Withholding Tax Returns.

Final Payment to Contractor: It was noted that the final payment to the contractor for the Administration Building was made even though Part II of the completion papers has not been compiled. The State Housing Board's Director stipulated in this connection that final payments to the construction contractor should be made only after the completion papers have been executed and signed by all parties of interest.

Contracts Awarded: It was noted that as the result of an advertisement inserted in a local newspaper inviting bids for cleaning, heating and hot water units, only one complete bid was received. The contract was awarded to this bidder in the amount of \$642.00. It is suggested that henceforth an effort be made to get bids from more than one concern even if it involves direct correspondence, etc.

Distribution of Expenditures: It was noted that several fuel oil bills that should have been charged to the Utilities Account were charged to the Repairs, Maintenance and Replacements account.

Travel Expense: It was further noted that one of the members of the Authority submitted several expense vouchers for trips to Boston and each such voucher simply stated "Business Trip to Boston --- \$20.00". It is recommended that these vouchers specifically indicate the expenses incurred.

Architect's Fees: In connection with the fees paid to the architect it was noted that apparently \$95.71 is still due him. The following detail relative to this matter is shown:

| | |
|---|----------------|
| Authorized Fee on General Contract | \$21,589 60 |
| Authorized Fee on Administration Building | 781 93 |
| | <hr/> |
| | \$22,371 53 |
| Fees Paid to Architect | 22,275 82 |
| | <hr/> |
| Unpaid Difference | <u>\$95 71</u> |

A final bill from the architect could not be located and it is, therefore, suggested that the architect be contacted in this regard.

Distribution of Unpaid Development Costs: When this project went into Management, certain accruals were set up on the records. Among these items was one for \$4,500.00 for painting the exterior of the buildings. This item which should have been charged to the Structures and Equipment account was erroneously charged to the Site Improvement account. Proper adjustments should be made forthwith.

Visit to Project: The project site was visited and in this connection it was noted that the exterior of the buildings appear to be badly in need of painting. It was learned that bids are presently being solicited for this work.

NORTHAMPTON HOUSING AUTHORITY

REPORT NO. 53-H-46

Revolving Fund: It was noted that the reimbursements to the Revolving Fund by the projects for the month of January 1953 totaled \$661.87 as against an amount of \$1,182.77 disbursed by the Revolving Fund for the projects in the same period. It was further noted that as of the date of audit no records of original entry were being maintained.

It is suggested that adequate financial records be set up, and that each project reimburse the Revolving Fund at the end of each month for its proportionate share of the disbursements made by the Revolving Fund.

Surplus - Temporary Construction Projects: The previous audit report commented upon the fact that the Authority had not transferred any of the surplus from the operation of these units to the City of Northampton, and it suggested that the State Housing Board issue necessary instructions to the Authority relative to the proper disposition of this surplus.

In this connection, it was noted that no action had been taken to transfer this surplus which as of the date of audit amounted to \$7,998.80. Since the Authority does not own these units, but only operates them as the agent for the City of Northampton, the owner, it is recommended that the accumulated surplus be turned over to the City of Northampton forthwith.

Vacancy Losses - Temporary Construction Projects: It was noted that vacancy losses have increased substantially during the last three months of the operation of these units. This condition would seem to indicate that the need for this type of stop-gap emergency housing is nearing an end. It is suggested that the Authority consider the possibility of demolishing the units which may no longer be needed.

Debt Service Payments - Project 200-1: This Authority pays into its Debt Service Fund through its fiscal agent each fiscal year an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. This amount has previously been paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of each of the first nine months, and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year.

However, commencing on January 1, 1953, the start of the third fiscal year, this amount is to be paid in one payment which is to be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its second subsidy payment in the amount of \$20,472.00. This amount is \$3,078.00 less than the maximum subsidy of 2 1/2% of the development cost which was received for the first fiscal year under Permanent Financing. This decrease was effected by applying a portion of the first fiscal year's surplus to the reduction of the maximum subsidy.

Discount Lost - General: The following comment was made in the previous audit report:

"It was noted that a total of \$95.42 for Project 200-1 and \$23.24 for the Title V Project was lost because discount terms were not taken advantage of. It is recommended that bills be passed for payment in sufficient time to allow the taking of all discounts."

It was again noted that the Authority had neglected to pass bills for payment in sufficient time to take advantage of discounts offered. As a result, discounts amounted to \$48.04 for the Temporary Construction Projects, and \$147.18 for Project 200-1 were lost during the audit period.

It is again recommended that all bills be passed for payment in sufficient time to allow the taking of discounts.

Proration of Salaries - General: There appears to be no logical basis for the present distribution of the salaries of the Executive Director and the accountant between the various projects. It is recommended that these salaries be prorated on a unit basis.

WOBURN HOUSING AUTHORITY

REPORT NO. 53-H-47

Projects 200-1 and 200-2

Cash Receipts: It was noted that cash received in payment of rent is not always posted as of the date received. On occasions it was posted as of the date received by the bank. Because of this practice cash actually received on the last day of the month is entered as being received on the following month instead of being handled as a deposit in transit.

This, of course, results in an understatement of the cash balance and prepaid rents and an overstatement of the tenants' accounts receivable at the end of any month in which these postings are so handled.

It is, therefore, recommended that all cash received be posted to the cash book as of the date it is received by the Authority.

Tenants' Security Deposits: It was noted that this account includes two amounts which should either be returned to former tenants or be applied to their accounts. These items involve \$34.50 in Project 200-1 and \$40.00 in Project 200-2.

In further connection with Security Deposits it was noted that a security deposit in Project 200-1 which was refunded to a former tenant from the Development Fund now appears on the books as an account receivable. Since the Development Fund has been closed out, it is suggested that this item be adjusted from the records.

Voided Checks Listed as Disbursements: It was noted that check 638, dated March 12, 1952, in the amount of \$6.09 drawn on Project 200-1 and check 573, dated March 12, 1952, in the amount of \$5.40 drawn on Project 200-2 had been listed as disbursements from the respective projects and were still being carried as outstanding checks despite the fact that they had been voided.

It is recommended that the necessary adjusting entries be made.

Approval of Vouchers Payable: It was also noted that vouchers are not being signed by a member of the Authority to certify that the payment is a proper expenditure from the funds of the Authority.

It is recommended that a member of the Authority be designated to complete the certification appearing on the vouchers.

Disposition of Prior Year's Surplus: Attention is directed to the fact that the operating statement for the fiscal year October 1, 1951 to September 30, 1952 for Project 200-1 indicated a surplus of \$3,483.73 after the receipt of the Commonwealth's contribution. This amount will be used to reduce the Commonwealth's contribution for the fiscal year ending September 30, 1952.

Further attention is directed to the fact that the operating statement for Project 200-2 for the fiscal year October 1, 1951 to September 30, 1952 resulted in a surplus of \$1,579.27 after the Commonwealth's contribution was credited.

On instructions of the State Housing Board, this amount was transferred to the Operating Reserve account.

Accounts Payable - Development - Project 200-1: An analysis of the balance in this account, \$1,094.26, indicated that it was comprised of anticipated liabilities as of the date of Permanent Financing which had been estimated erroneously.

Inasmuch as all liabilities for which this account was set up have been liquidated, it is recommended that this account be closed out. It is suggested that it be applied to reduce the Commonwealth's contribution in subsequent fiscal years.

Washing Machine Commissions - Project 200-1: In checking commission received from washing machines installed at Project 200-1 it was noted that no remittance had been received as a consequence of collections made by the concessionaire during the month of November 1952. When the concessionaire was contacted a check in the amount of \$10.86 was immediately forthcoming.

Contract for Financial Assistance - Project 200-2: On December 31, 1952 the Authority and the Commonwealth of Massachusetts entered into a contract for Financial Assistance in anticipation of construction of an additional one hundred State-aided housing units. As of date of audit, no temporary notes had yet been issued.

GREENFIELD HOUSING AUTHORITY

REPORT NO. 53-H-48

Project 200-1

Debt Service Payments: The Greenfield Housing Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. For the first two fiscal years this amount was paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of the month in each of the first nine months, and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year. However, starting with January 1, 1953, the beginning of the third fiscal year under Permanent Financing, this amount will be paid at one time and will be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year.

Commonwealth Contribution - Second Fiscal Year: This Authority received \$17,132.00 as its second annual Commonwealth Contribution. This amount was \$2,918.00 less than the maximum subsidy of 2 1/2% of the development costs which was received for the first fiscal year under Permanent Financing. This decrease was effected by applying a portion of the first fiscal year's surplus to the reduction of the maximum subsidy.

The operating surplus for the first fiscal year under Permanent Financing amounted

to \$6,261.33 and was distributed on advice of the Chairman of the State Housing Board, as follows:

| | |
|--|-------------------|
| Transfer to Operating Reserve | \$3,343 33 |
| Transfer to Commonwealth Contribution Reduction Reserve | <u>2,918 00</u> |
| | <u>\$6,261 33</u> |

Deficit from Operations - Second Fiscal Year: The deficit from operations for the second fiscal year under Permanent Financing totaled \$4,462.33. This loss was due primarily to two factors - the excess of supplied utility costs over charges to tenants and unusual maintenance expenses. In an effort to eliminate continued loss from utilities, the Authority increased the charges to tenants by \$3.25 per month per unit as of February 1, 1953. The unusually large maintenance expenses were mainly for the correction of a faulty drainage system and the painting of certain dwelling units, both interior and exterior.

Chapter 372

Security Deposits: It was noted that as of February 28, 1953 a difference existed between the trial balance of tenants' security deposits as recorded in the Tenants' Accounts Receivable ledger and the control account in the general ledger. This was determined to have been caused by a security deposit "refund" being made to a vacating tenant, who had never made a deposit. It was also noted that a tenant who vacated on March 31, 1951 owing no balance had never received his refund. It is suggested that greater care be exercised in this connection in the future.

Payment in Lieu of Taxes: Although this Authority had set aside funds each year for payments in lieu of taxes to the Town of Greenfield, no payments have been made since the inception of the project. As of the date of audit, there was \$4,383.43 in this account. It is suggested that the Authority request approval for payment from the Chairman of the State Housing Board.

Insurance Refund: It was noted that an insurance policy covering the Chapter 372 project for public liability was partially canceled during the audit period, but that the return premium was entered on the financial records of Project 200-1. It is recommended that this matter be adjusted forthwith.

Interest on Savings Deposits: This Authority with the approval of the Chairman of the State Housing Board has deposited \$13,000.00 of surplus funds in savings accounts so that the interest may be used to lower the net cost of operations. However, as of the date of audit, no entry appeared on the records to reflect the interest earned. It is suggested that the Authority regularly enter this income.

Housing Authority Law: Attention is directed to Housing Authority Law, Section 26-O of Chapter 121 of the Tercentenary Edition of the General Laws, as amended, which reads in part as follows:

"No member, agent or employee of a housing authority shall, directly or indirectly, have any financial interest in any property, to be included in, or any contract for property or materials to be furnished or used in connection with, any project of such housing authority."

In this connection it was noted that an employee of the Authority entered into and completed a contract with the Authority while still an employee of the Authority and that at various times during the period under audit this same employee sold merchandise to the Authority for use in the maintenance of the project.

ARLINGTON HOUSING AUTHORITY

REPORT NO. 53-H-49

Bank Deposits: The test check of bank deposits to rent receipts revealed that the rent collections are not being deposited daily. It is recommended that all money received by the Authority be deposited on the day of receipt, if practical.

Revolving Fund: Many of the expenses of the Authority apply to more than one project and must, therefore, be prorated between the projects. Since this Authority has requested an allotment of units from the State Housing Board for a third project, it is recommended that a Revolving Fund be established in order to facilitate the payment of the joint expenses of the projects.

Project 200-1 - Disposition of Surplus: The project surplus for the fiscal year ended December 31, 1951 was determined to be \$15,673.40. On the instructions of the State Housing Board, this surplus was disposed of as follows:

| | |
|---|--------------------|
| Transferred to Operating Reserve | \$10,673 40 |
| Transferred to Reduce Commonwealth Contribution | 5,000 00 |
| | <u>\$15,673 40</u> |

For the fiscal year ended December 31, 1952, the project surplus was determined to be \$6,406.68. This entire surplus was reserved for the purpose of reducing the Commonwealth's Contribution in the subsequent year.

Project 200-1 - Comparative Operating Statement: A comparison of the operating statements for the two fiscal years ending December 31, 1952 revealed that the charges for Repairs, Maintenance and Replacements had increased from \$6,132.78 in 1951 to \$15,797.09 in 1952. The major portion of this increased expense pertained to a cost of \$7,575.00 for the painting of the project.

Project 200-2 - Development and Real Estate Funds: Since the balances in these funds are quite substantial, it is recommended that the amounts not needed in the immediate future be invested in United States short-term obligations. The interest income derived therefrom will thereby reduce the interest expense of the project.

Project 200-2 - Administration Fund Agreement: This agreement between the State Housing Board, the Authority and the bank should be signed before any administration funds are deposited.

In this connection it was noted that this regulation of the State Housing Board has not been complied with, and it is recommended that this agreement be entered into immediately.

WINTHROP HOUSING AUTHORITY

REPORT NO. 53-H-50

Temporary Projects - Cash Book: It was noted that entries in the cash book are only made periodically. It is recommended that the cash receipts be posted to the cash book as of the day received.

Temporary Projects - Tenants' Accounts Receivable: As of the date of audit the trial balance of the tenants' individual accounts reflected an amount which was \$24.00 in excess of the balance shown in the Tenants' Accounts Receivable control account. During the course of this audit the difference was identified and the necessary adjustment was made.

Temporary Projects - Count of Cash: The count of cash indicated that the Authority had a cash overage of \$10.00. It is understood that the custodian of the cash has been aware of this overage for over a month and has refrained from depositing it because he expected it to be claimed. It is recommended that this overage be deposited and an Accounts Payable - Sundry account be set up.

Project 200-1 - Investments: It was noted that accounts had not been opened to reflect the purchase of investments or the interest applicable thereto. It is recommended that the proper accounts be set up on future purchases of investments, in this way the books of account will reflect the entire financial transactions of the Authority.

Project 200-1 - Development Records: It was noted that these records had not been posted since June 1952. It was further noted that the cash receipts had been posted directly to the cash account instead of the cash receipts book. It is suggested that the books of account be kept currently and that the cash receipts book be utilized for the recording of all cash receipts.

Project 200-1 - Agent's Fees: The previous audit report commented upon the fact that fees paid on an issue of temporary notes had been erroneously charged to the Pay Roll Executive account. In this connection it was noted that like fees had been similarly charged during the current audit period. The necessary adjustments were again made.

Project 200-1 - Development Cost: The final development cost of this project cannot yet be determined, because the Authority is contemplating the construction of an Administration Building. In this connection it was noted that the State Housing Board had approved a payment of \$125.00 to an architect for the preparation of the preliminary sketches, etc.

Project 200-1 - Water Seepage: As noted in the previous audit report, this project still has a water seepage problem.

Project 200-1 - Architect's Fee: It was noted that the payments to the architect as his fee on this project amounted to \$27,096.25 as against a fee of \$23,045.97 computed by the State Housing Board. It is recommended that the Authority take steps to recover this overpayment of \$4,050.28.

General - Petty Cash Vouchers: An examination of the petty cash vouchers, which are made out on ordinary pieces of paper, revealed that they had not all been signed by the individuals reviewing the petty cash funds. It is suggested that printed petty cash vouchers be obtained, and that all the vouchers, which should properly identify the expenditure, be signed.

General - Members' Compensation: It was noted that the Authority had not received the prior approval of the State Housing Board for the payment of members' compensation. It is recommended that prior approval be obtained before the making of any such future payments.

General - Treasurer's Expenses: At a meeting held on May 22, 1952, the Authority voted to pay its former Treasurer \$200.00 for expenses incurred by him from March 1950 to February 1952. This payment was subsequently made without any prior approval by the State Housing Board.

It is difficult to understand why the Treasurer had permitted his expenses to accumulate for two years without seeking formal reimbursement. In this connection it was noted that many of his expenses had been paid for out of petty cash.

It is recommended that the expense accounts of the Authority members be submitted currently, and that any further reimbursements for expenses accumulating over a period of time receive the prior approval of the State Housing Board.

General - Books of Account: The examination of the accounts of the Authority revealed several weaknesses in the keeping of the records. It is suggested that a field accountant of the State Housing Board visit this Authority and render some accounting assistance to the custodian of the records.

BOSTON HOUSING AUTHORITY

REPORT NO. 53-H-51

General - Cash Shortages: Attention is directed to the fact that during this audit period three shortages in the cash account had been reimbursed.

One shortage, which involved \$5,899.90 of Chapter 372 Permanent Construction Fund, was in the accounts of one of the cashiers and comprised the following:

| | |
|--|-------------------|
| Tenants' Accounts Collections Not Credited | \$5,715 50 |
| Cash Account Shortage | 179 60 |
| Petty Cash Account Shortage | 4 80 |
| | <u>\$5,899 90</u> |

The records further indicate that the aforementioned amount was paid to the Boston Housing Authority by the aforementioned cashier, as follows:

| | |
|------------------|-------------------|
| November 3, 1952 | \$4,500 00 |
| March 10, 1953 | 1,399 90 |
| | <u>\$5,899 90</u> |

It was further understood that this employee, who apparently also acknowledged responsibility for the shortage, resigned as of October 24, 1952.

The second instance involved only \$94.00 and was also in the Chapter 372 Permanent Construction Account. This item, which stemmed from variations in four bank deposits, was reimbursed by one who is continuing in the employ of the Authority.

The third variance involved funds of the Chapter 200-1 project and represented a difference of \$1,000.00 in the bank deposit of July 31, 1951. Apparently the responsibility for this shortage was never established, and the amount was reimbursed by insurance companies under the "Mysterious Disappearance" clause of its Fidelity policies.

General - Cash Balances: In certain instances where rent collections of more than one project were made in the same office, they were all deposited in one bank account. This practice is, of course, contrary to the terms of the Contract for Financial Assistance, which states that such funds must be deposited in an accepted depository. While the banks in which these deposits were made were accepted depositories, they had not been accepted for deposits of group funds.

It was understood that the intent was to transfer the collections of these projects deposited in other accounts at the end of each month. It was noted, however, in some instances that transfers were not made for a period longer than three months.

It is suggested that the collections should be segregated by the projects involved and deposited intact to their respective accounts.

General - Prenumbered Checks: The previous audit report stated that bank checks were not prenumbered. Inasmuch as there has been no change in this regard, it is again suggested that these checks be consecutively prenumbered.

General - Amortization of Note Premiums: It was noted that premiums received on notes issued on projects in the development stage had not been amortized in accordance with accepted accounting practices.

It was noted that the related interest was being properly accrued, but because the premiums had not been amortized the status at any given time was not accurately reflected. As at March 31, 1953, the differences due to not having amortized the premiums created understatements in the Development Costs of the following projects:

| | |
|--------|-----------------------|
| 200-3 | \$ 126,607 45 |
| 200-8 | 209,050 00 |
| 200-10 | 255,355 99 |
| 200-11 | 416,641 64 |
| 200-12 | 106,020 19 |
| 200-13 | 17,332 18 |
| | <u>\$1,131,007 45</u> |

General - Central Office Fund: This Authority maintains a fund known as the "Central Office Fund", which in connection with this audit was examined for the first time by the Department of the State Auditor.

General - Project Office Cashiers: Attention is directed to the fact that the cashiers of the various projects are apparently responsible for the posting and proper control of the detailed tenants' ledger cards, and in this connection they also submit each month a summary of all transactions in these accounts to the central office where it is used as a posting medium to the general ledger control accounts.

These cashiers are classified, for pay roll purposes, as management personnel and come under the direction of the Supervisor of Management. It is suggested that consideration be given to having their supervision under the direction of the Chief Accountant of the Authority.

General - Tenants' Accounts Receivable: In checking the Tenants' Accounts Receivable of the several projects, it was noted that many balances have been outstanding for more than one year and appear to be uncollectible. Many of these accounts are in the hands of the Authority's legal department for collection, but there has been very little activity toward collection during the current audit period. It is suggested that those accounts which are classified as doubtful be transferred to a "suspense" account receivable account. Those actually determined to be uncollectible should be charged against

the reserve which was established for such items, and, as a result, more accurate amounts would be reflected on the records.

General - Washing Machine Income: Income received from washing machines operated at five projects was checked to the reports received from the concessionaire owning the machines. In this connection, it was noted that an error of \$100.00 in gross commissions had been made by the concessionaire, resulting in \$20.00 less being received than was actually due. When the proper parties were apprised of this error, the amount in question was forthcoming.

Attention is directed to the fact that the contract for the washing machine concessions had been entered into without requesting bids, and in this connection it was noted that a commission of only 20% is received, whereas it was learned that the same concessionaire pays the Cambridge Housing Authority a commission of 51%.

General - Bids: It was noted that a multilith machine for use by this Authority was purchased directly from the manufacturer for \$2,328.35, without the formality of obtaining competitive bids. In connection with this purchase, the vendor offered \$328.35 as a trade-in allowance for an old machine. This allowance was not accepted, because it was felt that a larger amount might possibly be obtained by a sale. To date, however, this old machine is still on hand, even though more than a year has elapsed since the purchase of the new machine.

It is, therefore, suggested that steps be taken to arrange for the sale of this old piece of equipment which is constantly depreciating in value.

It was noted that a subcontract for painting on project 200-10 was not awarded to the lowest bidder. The award was made to a concern whose bid was \$773.00 more than that of the lowest bidder, or \$75,295.00 rather than \$74,522.00. The reason advanced for this action was that the General Contractor would not agree to giving the contract to the lowest bidder.

General - Revolving Fund: It was noted that the accounts receivable indicated on the Balance Sheet of the Revolving Fund as of March 31, 1953 were not in agreement with the contra accounts payable to the Revolving Fund on the various balance sheets of the various projects:

The differences were as follows:

| | |
|----------------|-------------------|
| Title V | \$ 2 00 |
| Project 200-3 | 20 |
| Project 200-7 | 5 00 |
| Project 200-8 | 2 59 |
| Project 200-13 | 663 65 |
| | \$ 673 44 |
| Central Office | 434 94 |
| | <u>\$1,108 38</u> |

The foregoing items were brought to the attention of the proper personnel, and it is understood that the necessary adjustments will be effected.

Subsequent to the inception of this audit, payment was stopped on thirty-six outstanding checks, and the accounts which were originally charged were properly credited. A number of these checks had been carried as outstanding for many years, as is shown by the following:

| <u>Year</u> | <u>Number</u> | <u>Amount</u> |
|-------------|---------------|-----------------|
| 1944 | 1 | \$ 1 00 |
| 1945 | 3 | 21 00 |
| 1946 | 5 | 18 09 |
| 1947 | 2 | 11 00 |
| 1949 | 4 | 39 84 |
| 1950 | 3 | 74 43 |
| 1951 | 2 | 25 00 |
| 1952 | 16 | 142 75 |
| | <u>36</u> | <u>\$333 11</u> |

Temporary Construction Projects - Insurance Coverage: It was noted that there was no fire insurance being carried on the temporary units because the Authority was of the opinion that the rates on these structures were prohibitively expensive. Attention is also called to the fact that these units are being demolished as they are vacated. It is anticipated that they will be completely wrecked within a year.

Temporary Construction Projects - Disposition of Income: It was noted that \$22,619.37 was paid to the City of Boston on account of a reduction of the Account Payable of project 372, thereby reducing this item to \$42,687.67.

Chapter 372 - Subsidy Payments: Attention is directed to the fact that four of the possible five payments had already been paid by the Commonwealth.

In this connection it was noted that the Development Costs per the Authority differed considerably with the basis of the subsidy payments.

It was further noted that expenditures totaling \$159,072.59 had been made on a Morton Street - Lennoco Road project. Inasmuch as this project had not yet been accepted, no subsidy payments have been received to date on it.

It was further noted that three items had not been properly distributed, as follows:

| | |
|------------------------|---------------------|
| General | \$213,501 72 |
| River Street - General | 8,085 27 |
| Roads and Utilities | <u>451,891 17</u> |
| Total | <u>\$673,478 16</u> |

The first item should have properly been distributed over all thirty of the Chapter 372 projects, and the other two items should have been distributed over the eleven River Street projects.

Inasmuch as true costs will become most important in the event that any of the aforementioned projects are ever sold, it is suggested that steps be immediately taken to make the necessary adjustments.

Chapter 200-1 - Vacancy Losses: This project reflects an unusually large vacancy loss because one-bedroom apartments do not appear to have been in demand. This vacancy loss for the first six months of Permanent Financing totaled \$13,574.44.

This loss item was simply deducted from rental income, whereas it should have been charged to the Operating Reserve set aside for this purpose.

In this connection, it was noted that the Operating Reserve account has a balance of \$204,814.00 after only six months in Permanent Financing. The maximum established for this reserve is to be \$291,600.00 and would normally be reached in five years. Because \$192,000.00 was credited to the fund at the close of the Initial Operating Period, the full amount will be reached sooner than ordinarily anticipated.

Attention is also directed to the fact that by reducing the rental income by the vacancy loss indicated, a false deficit for the first six months of \$9,475.47 was created. Had the entry been correctly handled, a profit of \$4,098.97 would have resulted.

It is suggested that the suggested adjustments be effected forthwith.

Project 200-5 - Miscellaneous Expense: It was noted that an expenditure for \$500.00 was made which was not included in the approved budget and was classified as a Miscellaneous Expense. This payment was necessary to reimburse a tenant for damages he allegedly suffered to his books, clothing and furniture which were stored in the cellar of this project when the water system backed-up. This tenant claimed \$1,170.00 for the articles destroyed, but with the approval of the State Housing Board, the amount of \$500.00 was agreed upon and paid.

Project 200-8 - Wall Collapse: It was noted that a retaining wall on this project collapsed. Because there was a question as to liability, a Board of Arbitration was named, as follows:

- One member - Chosen by the State Housing Board
- One member - Chosen by the Contractor
- One member - Chosen by the above two

This Board decided that the liability for replacement would be that of the Authority and not the contractor, and attributed the cause of the collapse to the peculiar type of

soil and ground structure.

Project 200-8 - Refrigerators Stolen: After this project was accepted but prior to its occupancy, three refrigerators mysteriously disappeared from apartments.

Because the project had been accepted for occupancy, the liability for replacement fell upon the Authority. There being no insurance covering this, the cost of replacement totaling \$406.38 was added to the Development Costs.

UXBRIDGE HOUSING AUTHORITY

REPORT NO. 53-H-52

Subsidy Payments: The Commonwealth has paid to the fiscal agent of this Authority, the Second National Bank of Boston, the second annual subsidy in the amount of \$5,798.00. This payment was made directly to the fiscal agent on June 4, 1952.

In addition, the Authority paid to the fiscal agent an amount of \$577.00 on November 10, 1952 which represented the amount originally transferred to the Annual Contribution Reduction Reserve.

In this connection, attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for approximately six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Operating Budget: In a review of the 1953 budget, it was noted that the amount was more than twice the actual expenditures in 1952 in the Repairs, Maintenance and Replacements account. This increase was largely attributed to the fact that the Authority contemplates painting all the gutters and drains of the various units. During the visual inspection of the project it was noted that these gutters and drains were peeling and were in need of painting. In addition, it was also noted in 5 units, that the nails holding the sidings were loose and are to be replaced with a different type of nail. This also contributed to the anticipated increase in costs.

In view of these conditions and the fact that this project has been in permanent financing for only a little more than two years, it is suggested that these matters be reviewed with a view towards establishing the responsibility and liability of the original contractors in these respects.

NORTHBRIDGE HOUSING AUTHORITY

REPORT NO. 53-H-53

Subsidy Payments: The Commonwealth has paid on September 11, 1952 to the fiscal agent of the Northbridge Housing Authority, the Worcester County Trust Company, its second annual subsidy payment in the amount of \$4,853.50.

In addition, this Authority paid \$3,096.10 to the fiscal agent on January 29, 1953, representing \$2,449.60 of accrued payments to Debt Service Fund and a reserve reduction of \$646.50.

Inspection of Buildings: It was noted during the inspection of the exterior of the buildings that the buildings appeared to be in need of painting. In this connection it was further noted that a contract for this painting was awarded while this audit was in progress.

Delinquent Accounts: Attention is called to the fact that rent accounts totaling \$236.97 were in arrears as of the date of audit. It is suggested that steps be taken to enforce collections of these items.

Legal Fees: The previous audit report referred to an accounts payable for legal fees in the amount of \$334.04, representing the balance of a legal services contract calling for a fee of \$800.00. This balance still appears as open on the books as of the date of the current audit and it is suggested that an effort be made to adjust or dispose of it.

WATERTOWN HOUSING AUTHORITY

REPORT NO. 53-H-54

Project 200-2 - Contract Awards (Incompleted Contracts): It was noted that the bookkeeper had overstated these accounts by \$3,418.01. Adjustments were effected while the audit was in progress.

Rent Due: It was noted that a total of \$653.65 was due for rent as of the date of audit from present and former tenants of the Temporary Construction Project.

It was also noted that on that date a total of \$1,686.21 was due for rent from present and former tenants of Project 200-1 and tenants still residing on Project 200-2 owed a total of \$105.59.

It was also noted that the necessary steps are being taken to effect the collections of all delinquent accounts.

Establishment of a Revolving Fund: It was noted that many of the disbursements which involve expenses applicable to more than one project are made from the Administration Fund of Project 200-1. This is contrary to the terms of the Administration Fund Agreement and it was suggested that a Revolving Fund be established and maintained for this purpose, and on April 7, 1953 the Authority members voted to establish such a fund.

Project 200-2 - Development Cost Analysis: It was noted that the following cost classification did not agree with the analysis prepared by the Authority's accountant:

- a) A charge of \$200.00 was made to account 1430.8, Fees for State Housing Board Services, but it should have been posted to account 1430.7, Inspection Salary and Expenses.
- b) Account 1430.7, Inspection Salary and Expenses, was overstated by \$1,353.12, and that account 1430.8, Fees for State Housing Board Services, was understated by a like amount.
- c) A charge of \$51.10 which should have been made to account 1460, Structures and Equipment, had been erroneously charged to account 1450, Site Improvement.

The necessary adjustments were made while the audit was in progress, after they were brought to the attention of the proper Authority personnel.

Project 200-2 - Management Expenses: It was noted that the following expenses were not properly allocated:

- a) The salary of temporary help on snow removal was improperly charged to account 4400, Repairs, Maintenance and Replacements, in the amount of \$59.00 and it should have been charged to account 4200, Operating Services.
- b) The salary of the custodian was charged to account 4200, Operating Services, but should have been allocated to the following accounts: 4200 - Operating Services; 4300 - Heating Labor; and 4400 - Repairs, Maintenance and Replacements.
- c) When tenants purchase keys from the Authority the money received is credited as Miscellaneous Income, but should be used as a reduction to the Repairs, Maintenance and Replacements account from which it was purchased.

Necessary adjustments were effected after the foregoing were called to the attention of the proper personnel.

Project 200-1 - Expenses: It was also noted that the following expenses were improperly allocated:

- a) The salary of the night custodian in the amount of \$784.00 was charged to account 4200, Operating Services, but should have been charged as follows: Account 4300 - Heating Labor \$414.00; and Account 4400 - Repairs, Maintenance and Replacements \$370.00.
- b) The salary of the day custodian was improperly charged to account 4200, Operating Services, and it should have been

charged as follows: Account 4300 - Heating Labor and Account 4400 - Repairs, Maintenance and Replacements.

- c) The Administration Fund of this project had paid the sum of \$750.00 for Legal Services on Land and had charged it to Account 4100 - Management Expenses. This should have properly been charged to the Development Account 1440, 8 - Legal Services and Expenses - Land Only.

Necessary adjustments were effected to correct all of the foregoing.

Chapter 372 - Remodeled Units: It was noted that this project does not appear to be paying its proper share of the office expenses.

It is therefore recommended that this project pay its share of the following expenses together with others which may later become applicable.

| | |
|-----------------------------|--------------------|
| Office Rental | \$ 60 00 per month |
| Secretary's Salary | 3,120 00 per year |
| Executive Director's Salary | 5,700 00 per year |

Investments in United States Treasury Bills: It was noted that excess funds of this Authority have been invested in United States Government Securities. This reduced the Interest Charges during Development. In the Administration Account it is credited to the Miscellaneous Income Account.

Accounts Payable Vouchers: It is suggested that all Accounts Payable vouchers be filed by projects. This will assist in the posting to the cash disbursement book and will prove helpful in subsequent audits.

Chapter 372 - Operating Budget not Submitted as Required: In accordance with the provisions of Section 7 of Chapter 372 of the Acts of 1946, no expenditure is to be made by any city or town or by any housing authority board or officer acting as agent for such city or town in carrying out the provisions of Sections 4 and 6 of that Chapter of more than \$1,000.00 in any one year without the prior approval of the State Housing Board. To eliminate the necessity for processing individual requests for expenditures exceeding this amount, the State Housing Board now approves annual budgets for the operation of projects. This apparently constitutes approval for making all expenditures to the limit of such budgets.

In this connection attention is directed to the fact that, as of the date of audit, this Authority had failed to submit operating budgets for the calendar years 1952 and 1953.

Payment to Board Members: At the Authority's meeting of December 26, 1952 it was voted to pay the Board members the following monthly compensation:

| | |
|-----------------------|-----------------|
| Chairman | \$ 20 00 |
| Treasurer | 55 00 |
| Members (3 @ \$10.00) | 30 00 |
| | <u>\$105 00</u> |

These amounts will be specifically paid for eleven months and on the twelfth month an adjustment will be made to conform with the 1% of the shelter rent which is allowed for such compensation.

It was further noted that payments to Board members were being made from the Petty Cash Fund. It is recommended that henceforth these payments be made by check.

Tenants' Security Deposits: It was noted that this Authority does not require security deposits of tenants.

Project 200-2 - Retention of Clerk of Works: Attention is directed to the fact that this Authority retained its Clerk of Works at a salary of \$100.00 a week after the project was entirely occupied. This person has been so employed since January 1953. Even though this project has not yet been accepted as completed by the Authority, little work is still necessary. In this connection it was further noted that this individual has a contract for Supervisory Services with the Authority, and which states:

- "1. The said ---- agrees to perform all supervisory services in connection with and during the entire period of development and construction of said project and until the final completion of said project as the agent for and acting in behalf of the Authority.
- "2. Said ---- agrees to devote his full time and energies in performing said services and to apply due diligence in connection therewith. The Authority agrees that it will not discharge the said ---- nor terminate this contract unless requested in writing to do so by the Architect for said project."

In further connection with this matter it was understood that the Authority has unsuccessfully attempted to have the architect take steps to terminate this contract.

Project 200-2 - Payment of State Construction Advisor: It was noted that a bill submitted by the State Housing Board for services of State Construction Advisors for this project was only paid in part, in accordance with the following letter:

May 1, 1952

State Housing Board
90 Tremont Street
Boston, Mass.

Attn: Mr. ----

Dear Mr. ----:

This will acknowledge receipt from Mr. ---- of a quarterly bill rendered for salary and expenses of ---- totaling \$1411.34.

When the previous quarterly bill on Mr. ---- account was received in January totaling \$1423.83, it was felt that it was excessive in proportion to the services rendered. However, the bill was paid as we had no definite record then of the actual time Mr. ---- had devoted to the East Watertown Project (Watertown 200-2).

Since then we have a weekly record of Mr. ---- time at this project, and in hours the total is so small that we feel the billing of \$1411.34 is unwarranted and excessive, and could not be justified if questioned by the State Auditors.

Doubtless your office also has on file Mr. ---- weekly reports of his time spent at the East End Project. If so, we will be glad to compare his record with those of this office.

Very truly yours,
WATERTOWN HOUSING AUTHORITY

BY:
Exec. Director

In this connection it was noted that only \$705.67 was paid in accordance with an oral agreement with the State Housing Board.

Project 200-1 - Purchase of Swings: It was noted that four sets of swings were purchased at a cost of \$507.47 and were charged to Account 1450 - Site Improvement, but the cost of the labor for their erection in the amount of \$186.30 was charged to Account 4400 - Repairs, Maintenance and Replacements. These items should have been both charged to the same account. It was also noted that this Authority did not obtain State Housing Board approval before making these expenditures.

Project 200-1 - Architect's Fees: In analyzing the payments made to this architect it was noted that in May 1951 a charge of \$342.30 was improperly made to Account 1450 - Site Improvement, while it should have been to Account 1430.01 - Fees under Contract.

In October 1951 a charge of \$1,422.93 was also erroneously made to the Site Improvement Account rather than to the Fees under Contract Account. These items were corrected while the audit was in progress.

Project 200-2 - Architect's Fees: It was noted that the payments to this architect exceeded the original fee estimated as submitted by the State Housing Board by \$2,968.79.

In the architect's contract, no actual fee is indicated and only a rate schedule which is governed by the General Contractor Bid Price, Type, etc., is used.

This architect based his fee on the Original Contract Price while the State Housing Board based the fee on the Original Contract Price which had been reduced by negotiation because of Change Order No. 1, wherein the contract price was amended by \$69,775.00.

In order to clarify these situations, the assistance of the State Housing Board has been requested, but as of this audit date no reply had been received.

General Books of Account:

1. In reconciling the cash statements to the check book many mathematical errors were noted.

2. The Administration Fund cash account of Project 200-1 was under by \$58.00 while the Administration Fund account of Project 200-2 was over by the same amount. This was caused by depositing rent to the wrong account.

3. More care should be exercised in the posting of the Accounts Payable vouchers to the cash disbursements books. Certain books were not correctly footed and many items were not properly extended.

Ineligible Tenants: A review of the tenants' records indicated a number of tenants who apparently were not qualified to occupy their respective units. This ineligibility was due to the fact that incomes appeared to be in excess of the maximum income for continued occupancy set up for this project.

Project 200-2 - Minimum Rent: It was noted that this Authority computed the minimum rent for a two bedroom unit at \$54.50 and for a three bedroom unit at \$56.50. These amounts include utility charges. In this connection attention is called to the fact that the management program states that the minimum shelter rent for a two bedroom unit occupied by less than three minor dependents to be \$30.00 and for a three bedroom unit occupied by three or more minor dependents \$23.50. Utility charges of \$9.00 and \$11.15 respectively should be added in the instances of 2 bedroom and 3 bedroom units.

Project 200-1 - Accounts Receivable - Contractor: The balance sheet of the Administration Accounts included an Account Receivable - Contractor in the amount of \$10,809.57. This item stems from charges to the contractor's account for work performed by the employees of the Authority. It was learned that a settlement of this account will be recorded when a pending change order is settled. In this connection it was further learned that the State Housing Board had approved a change order in the amount of \$17,515.82 but that the general contractor refused to accept it.

Visit to the Projects: The projects were visited in connection with this audit and the following conditions were noted:

Project 200-1 appears to be in need of paint as the nails were rusting. The Authority has shellacked the nails in an effort to alleviate this condition and as a result it has caused an unattractive appearance.

When Project 200-2 was visited the contractor was in the process of making the following corrections:

1. Finish grading and seeding of outside lawn areas not satisfactorily completed.
2. Trees and shrubs planting.
3. Ceilings in outside balconies were being painted.
4. Parking lanes for tenants' autos not painted on black top area.

NORTH ADAMS HOUSING AUTHORITY

REPORT NO. 53-H-55

Permanent Financing: On July 1, 1952, this Authority transferred from Temporary Financing to Permanent Financing. Bonds in the total amount of \$909,000.00 were issued bearing interest at the rate of 2 1/4%. In this connection a premium of

\$17,542.79 was received. The total development cost of the project was \$930,462.67, and this amount was reduced by the net income during the Initial Operating Period in the amount of \$21,494.90. It was also rounded off for bond issue purposes by setting up a Working Capital item of \$32.23.

The following reserves, which were set up in the Initial Operating Period, were transferred to the new management books:

| | |
|------------------------|-------------------|
| Reserve for Insurance | \$1,800 00 |
| Accrued P. I. L. O. T. | 1,910 00 |
| Operating Reserve | <u>3,525 00</u> |
| Total | <u>\$7,235 00</u> |

Rent Receipts: It was noted that rent receipts are now prenumbered by the printer in accordance with a recommendation to this effect in the previous audit report.

Payment in Lieu of Taxes: Attention is called to the fact that this Authority had not yet paid the City of North Adams \$1,910.00 which had been accrued during the Initial Operating Period for taxes. It is recommended that this payment be made as soon as is practical.

LEOMINSTER HOUSING AUTHORITY

REPORT NO. 53-H-56

Commonwealth Subsidy: It is understood that the Commonwealth Contribution for the second complete year under permanent financing will be \$17,564.09 and will be paid to the National Shawmut Bank of Boston, the fiscal agent of this Authority, on or about June 15, 1953. This amount was computed as follows:

| | |
|------------------------------|--------------------|
| 2 1/2% of Development Cost | \$17,575 00 |
| Reduction Reserve (Surplus) | <u>10 91</u> |
| Contribution for Second Year | <u>\$17,564 09</u> |

Accounts Payable - Development: The records of this Authority indicate an accounts payable accruing from the development period in the amount of \$1,539.90. It was noted, however, that no actual liability exists for this amount at the present time. It was learned that it had been set up on the contingency that the Authority would build a fence at the Southern boundary of the project.

In this connection a letter was seen from the State Housing Board stating that the proposed site for the fence had been inspected but that there appeared to be no need for it; therefore approval was withheld. The Authority is however still of the opinion that the fence is necessary.

Interest - Surplus: The previous audit report stated that the interest earned on security deposits was closed out to the Surplus account at the end of the Initial Operating Period. This was adjusted by charging the Working Capital account with it and setting it up in an account called "Reserve for Interest on Security Deposits". It was noted that subsequent earnings of interest were likewise credited to this account.

Miscellaneous Income: It was noted that \$80.10 was found on hand in the office of the Authority. It was learned that this money had been collected from tenants for miscellaneous causes, i. e. broken windows, keys and cleaning of apartments. It is suggested that this money be entered in the cash book and deposited in the bank.

PITTSFIELD HOUSING AUTHORITY

REPORT NO. 53-H-57

Permanent Financing: This project was transferred from Temporary to Permanent Financing on October 1, 1952 with the issue of bonds in the amount of \$1,826,000.00. These bonds bear interest at the rate of 2 1/2% per year. A premium of \$28,796.02 was also received by the Authority at the time of the sale of bonds.

The total development cost of this project as of September 30, 1952 was \$1,911,879.43, which amount was reduced by \$85,879.43 by applying a portion of the income earned during the Initial Operating Period. The net income earned during the Initial Operating Period which amounted to \$112,262.57 was distributed to the Management Account as follows:

| | |
|---|---------------------|
| Reserve for Insurance | \$ 6,560 00 |
| Reserve for Operations | 17,640 00 |
| Reserve for Uncollected Tenants' Accounts | 2,183 14 |
| Reduction of Development Costs | 85,879 43 |
| | <u>\$112,262 57</u> |

Debt Service Payments: The Pittsfield Housing Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. For the first fiscal year this amount will be paid in two installments, \$7,902.88 to be paid on the first day of the sixth month of the fiscal year and the balance of \$15,587.50 will be paid on the first day of the twelfth month of the fiscal year.

This Authority has received, as provided in its Contract for Financial Assistance with the Commonwealth, 25 percent of its first subsidy payment which will total \$45,650.00 or 2 1/2% of the total certified development cost. The balance of the subsidy will be paid to the fiscal agent on the first day of the twelfth month of the fiscal year.

Member of the Authority: It was noted that a vacancy has existed on the Pittsfield Housing Authority since the resignation of a member in October 1951.

Interest on Investment: It was noted that interest in the amount of \$1,440.97 which was received from the investment of Development funds was credited to the Working Capital account. As this interest was earned during the Development period, it is suggested that it be used to reduce future subsidy payments by the Commonwealth and not allowed to remain in its present inactive category.

Surplus Cash: It was noted that the cash balance in the Administration Fund appears to be in excess of normal operating needs because of amounts reserved for the Operating and Debt Service Reserves. Since these Reserves were established to care for certain contingencies it is not necessary that the cash be readily available, therefore it is recommended that this cash be invested where it may possibly earn some interest.

Operating Deficit: Attention is called to the fact that for the first five months of operations under Permanent Financing this project was operated at a loss of \$513.21, after considering a proportionate share of the Commonwealth's subsidy for the particular applicable period.

CANTON HOUSING AUTHORITY

REPORT NO. 53-H-58

Cash Deposits - General: It was noted that rents collected were not being promptly deposited. It was further noted that bank deposits do not specifically reconcile with corresponding totals of used rent receipts. In this connection it was noted that the cash on hand as of the opening date of the audit, indicated several checks bearing dates more than one month previous to that date.

It was also noted in certain instances that deductions from cash collections were being made for payment of expenses. Most of these items deducted were not substantiated by invoices, etc.

In another case a cash receipt for \$40.00 was found, yet only \$20.00 was deposited. This \$20.00 variance could not be identified. It is therefore suggested that all cash collections be currently deposited in the specific form in which it is received and that each such deposit be for the exact total of the actual rent collections.

Minutes of Board Meetings - General: It was noted that the minutes of the Board Meetings do not include sufficient information for use in connection with this audit. For example, the minutes were silent with respect to the following:

1. Certain delinquent Tenants' Accounts Receivable were turned over to an attorney for collection.
2. Certain tenants were employed in the role of janitors to reduce delinquent accounts.
3. A salary increase was given to an employee from \$18.00 to \$25.00 per month.

It is recommended that all matters where finances might be involved be incorporated with the minutes of these meetings.

Payments to a Board Member: The previous audit report commented that a Board Member received \$211.80 for carpentry work. It was also noted at that time such transactions appear to be in violation of the statute. In further connection with this matter it was noted that an additional \$453.01 was paid during this audit period for similar services to the son of that Board Member, who, it is understood, is in the employ of his father.

Petty Cash Project 200-1: Although the petty cash account for this project has been discontinued the books still indicate a balance in that account of \$20.00. In this connection it was further noted that several items of expense were reimbursed from rent collections without any detail concerning description, etc.

It is suggested that a Petty Cash account be reestablished and that it be properly handled.

Tenants' Security Deposits: It was noted that Security Deposits due to vacating tenants were being disbursed from rent collections without signed receipts being obtained. It is therefore recommended that all such disbursements be made by check.

Range Installation Allowance Project 200-1: Electric light companies commonly give Housing Authorities monetary allowances for the installation of electric ranges. In this connection it was noted that \$1,040.00 was obtained from the local utility company after the project had entered into permanent financing. If this refund had been received while this project was still in temporary financing, the allowances would have been used toward reduction of development costs. Actually this amount was transferred to the Operating Reserve, thereby causing this reserve to exceed its maximum.

It would appear that it would have been more proper to have used these funds to reduce the Commonwealth Contribution inasmuch as it was not possible to apply them to the reduction of the costs of development.

Operating Reserve Project 200-1: The maximum operating reserve to be attained over a five year period by this project has been established at \$7,800.00. However, on the date of audit approximately fifteen months after entrance into permanent financing the balance in this reserve had reached \$8,180.83. It is suggested that this matter be reviewed, and the excess be used toward possible reduction of subsequent Commonwealth Contributions.

Deposits on Plans Project 200-1: It was noted that \$100.00 of Deposits on Plans which had been forfeited by two contractors was still being carried in a separate account more than a year. This item should originally have been applied to reduce development costs but since it is too late to enter such a transaction, it is suggested that these funds also be used to reduce subsequent Commonwealth's Subsidy Contribution.

Development Cost Liquidation Project 200-1: It was noted that the debt service accounts had been reduced by indicating the amounts of the amortization of the first fiscal year's debt. However, an entry showing Bonds Retired and Development Cost Liquidated was not made. It is suggested that an adjusting entry be made so that the accounts will accurately reflect the transaction.

Contracts Awarded Project 200-1: It was noted that the contract for heating maintenance had been awarded to the second lowest bidder. The records indicate that the Board took this action because of its contention that the lowest bidder was not equipped to properly carry out the provisions of the contract. The difference between the lowest two bids was only \$13.00.

Visit to Project 200-1: While this audit was in progress a visit was made to this Project in the company of the Executive Director for the purpose of inspection. In this connection the following conditions were noted:

Grounds: Sidewalks cracked, area needs cleaning and in many cases needs regrading. Grass and trees need attention.

Buildings: Shingles cracked, platforms separated from buildings, flashings, roof-drains and gutters need adjusting. Brick work in front poorly set, windows and frame-work need adjusting.

Interior: Tile floors in kitchens cracking, hardwood floors badly finished, doors warping and cracking. Cellars wet and some flooded on rainy days.

Stair tracks not nailed, railings loose, treads cracking and the painting of exposed metal surfaces never completed.

The conditions herein noted were generally comparable with those found in connection with a like visit made in conjunction with the previous audit. Since that time no action had apparently been taken to force the contractor to correct the various shortcomings. Attention is directed to the fact that contract retentions in the amount of \$6,590.66 are still being held by the Authority.

This project was first occupied in June 1951. It is understood that several inspections of the project have been made by State Housing Board representatives together with the contractor and representatives of this Authority, yet no positive action has been taken. It certainly appears that the State Housing Board and the Authority should have taken steps before this length of time had elapsed to insist that these faults be corrected.

Accounts Payable - Development Project 200-1: It was noted that Accounts Payable - Development in the amount of \$200.00 had been paid through the Administration Fund. It is suggested that the necessary adjustments be made.

Investment Project 200-1: The balance of cash in the Administration Fund on March 31, 1953 was \$13,548.80. Inasmuch as the current procedure suggested by the State Housing Board requires that only one payment be made each year to the fiscal agent for debt service requirements, it is suggested that the excess and inactive funds on hand be invested in short term government securities, where they may earn interest.

Closing of Project 372: This project was discontinued and the last two tenants vacated the premises on September 30, 1952. Salvage in the amount of \$400.00 was sold to a wrecking company without competitive bids being obtained. In this connection attention is directed to the fact that at the time of the closing of the project the rent delinquencies totaled \$1,867.40. Inasmuch as only nine units were ever available for renting, this is indeed a most unlaudable record. It was noted, however, that these accounts have been turned over to the Town Counsel for collection.

Subsidiary Records Project 372: It was noted that the individual accounts in the Tenants' Accounts Receivable ledger did not agree with the control account in the general ledger. This was traced to a voided receipt which was posted in error to the Tenants' ledger. It is suggested that the necessary adjustments be effected.

Disbursements for Oil Project 372: It was noted that several fuel oil bills totaling \$544.45 were paid, although no signed delivery slips were available. It is suggested that henceforth all necessary subsidiary data be attached to vouchers.

NORTH ATTLEBOROUGH HOUSING AUTHORITY

REPORT NO. 53-H-59

Permanent Financing: The Initial Operating Period of this project began on December 29, 1950, the date of the first tenancy, and ended on June 30, 1952 with the issue of bonds under Permanent Financing.

In connection with the Permanent Financing, it was noted that the profit of \$10,279.32 from operations during the Initial Operating Period was used as follows:

| | |
|--------------------------------|--------------------|
| Reduction of Development Costs | \$ 8,299 32 |
| Operating Reserve | 1,600 00 |
| Fire Insurance Reserve | 380 00 |
| | <u>\$10,279 32</u> |

It was further noted that the cash balance in the Development account at that time was carried forward and mainly reserved for the payment of liabilities incurred under Temporary Financing.

Acceptance of the Project: As of the audit date, Part II of the Certificate of

Completion had not been processed and final payment to the contractor had not been made.

During the period under audit there had been several meetings of the local Authority, representatives of the State Housing Board, and the general contractor concerning the final acceptance of the project.

It is understood that this delay in acceptance is due to the fact that the status of Change Order No. 9 and the amount of the contract retentions has not yet been determined.

Budget Overruns: A comparison of the budget with the actual operations for the period from July 1, 1952 to March 31, 1953 revealed that the actual expenses had exceeded the budget in several major categories.

Attention of the Authority is called to the fact that when it is necessary to make an expenditure which would result in an overrun of one of the major accounts, prior approval of a budget revision from the State Housing Board is required.

No such approvals were on hand.

Payment in Lieu of Taxes: During the period under audit a payment in lieu of taxes in the amount of \$227.00 was made to the Town of North Attleborough. In this connection it was noted that the local Authority had not received the required prior approval of the State Housing Board before making this payment.

Management Records: It was noted that the cash account was overstated by \$187.37 and that the expense accounts were understated by a like amount because of the several disbursements which had not been posted to the books of account. This condition was corrected as of March 31, 1953.

Legal Suits: During the period under audit the Authority voted to settle the two legal suits which had been pending as of the date of the previous audit.

These suits and the basis of settlement are as follows:

Authority vs. Ferris and Mahoney - Default on bid - re the contract for plumbing - Offer of the bonding company
Annie and Ernest Upham vs. Authority - Suit over land taken by eminent domain - Pre-trial agreement

However, as of March 31, 1953, the formal settlement of these suits was still in process.

Project Inspection: During the current audit a visual inspection of the exterior of the dwellings and the project area was made, and it was noted that the paint on the buildings had peeled in several spots. A similar condition was also noted in the previous report.

During the period under audit Change Order No. 8, decreasing the general contract by \$250.00 was processed. This change order was in the nature of a reimbursement to the Authority for the unsatisfactory painting.

Deposits: It was noted that the income cash had remained in the custody of the Executive Director for varying periods of time, on some occasions for as long as a month. It is again suggested that these receipts be deposited as soon as possible.

By-laws: A review of the minutes of the meetings of the Authority revealed that on September 9, 1952 the Authority voted to change the date of its annual meeting to the first Monday in January.

In further connection with this matter it was noted that a copy of the by-laws of the Authority could not be located.

Water and Sewerage Charges: According to the Management Program of this project, there is to be an \$8.00 charge to each tenant, payable semi-annually, for water and sewerage. This charge is to be adjusted periodically based on actual cost.

It was noted that charges for the excess usage of these services are made to the tenants' accounts only when the payment is received from the tenant.

In order that the tenants' accounts may reflect, at all times, the actual balances owed by the tenants, it is recommended that excess charges be charged to the individual tenant as soon as possible after the determination of the amount owed by each tenant.

Rental Charges: An examination of the tenants' records revealed that there had been no redetermination of the rental charges of any tenant since the project was first occupied.

In those instances where the Authority had obtained a later verification of the tenants' incomes, no action had been taken to adjust the rental charge, even though there was a change in income which would justify such a change. This means that, for the majority of tenants, the rental charge has remained the same for two years regardless of changes in income or the number of minor dependents in the family.

It is understood that the Authority is currently engaged in a verification of tenants' incomes, and that the rental charges will be adjusted in the near future.

It was further noted that several of the records lacked the data necessary to determine the proper rental charge or the eligibility of the tenant. It is recommended that the Authority maintain complete records of the tenants in the manner prescribed by the State Housing Board.

LOWELL HOUSING AUTHORITY

REPORT NO. 53-H-60

Revolving Fund: The past two audit reports have commented that the Administration Fund of the Federal Project Mass. 1-1, is being used as a Revolving Fund although it is called the Master Fund. Inasmuch as the situation still exists it is again suggested that a separate fund to be used expressly for these purposes should be established.

Check Books: It was again noted that the necessary detail is not entered on all the check book stubs, and that the bank balance is not currently brought forward. These suggestions should be put into effect immediately.

Legal Contract - Title V-19105: It was noted that the contract for legal services in connection with this project is still being paid at the annual rate of \$347.00. Because this project originally had 289 units and now has only 153, it is suggested that possibly this contract might be reviewed and consequently adjusted in amount.

Vacant Apartments - Project 200-1: It was noted that 21 apartments were vacant on March 31, 1953, that four of them have been vacant since December 1952, eight since January 1953, five since February 1953, and four during the month of March 1953. It was also learned that because of the poor condition of the kitchen floors these apartments could not be rented. These floor conditions will be corrected by a contract which was awarded on April 8, 1953.

Miscellaneous Income: It was noted that the cost of keys purchased from the Authority, cost of the replacement of glass, and cost of damage to apartments upon vacating are all charged to the Miscellaneous Income Account, despite the fact that they are a proper charge to the Repairs, Maintenance, and Replacement Account. If they had been properly posted to the latter account the effect would have been to reduce the account from which the items were originally purchased. It is therefore suggested that this account be analyzed and all necessary adjustments made.

Minutes of the Authority's Meetings: It was noted at the June 20, 1952 meeting of the Authority it was voted to pay an abutter to Project 200-1, \$15.15 as a reimbursement for 50% of the cost of a fence erected between his land and the site of the project. In this connection, it was noted that no payment on this account had been made prior to the completion of this audit.

Temporary Construction Projects - Demolition of the First Street - Colman Playstead Site: Attention is directed to the fact that these 152 units are in the process of being demolished because the site of the traffic rotary and approaches leading to the new Hunt's Fall Bridge will be located in this area. When these buildings are vacated, the Authority will turn the buildings over to the Building Department of the City of Lowell, who will supervise their sale, etc.

General - Visit to the Projects: While this audit was in progress the projects were all visited and in that connection the following conditions were observed:

Temporary Construction Projects

The Gorham Street and the Prince Street site appear to be in need of painting.

Project 200-1

The paint of this project is peeling and the nails are rusting.

Temporary Construction Projects - Transfer of Funds from Reserve Fund to Administration Fund: It was noted that \$5,000.00 had been transferred from the Reserve Fund to the Administration Fund for the purpose of painting the buildings on the Woodward Avenue Site consisting of 71 units. This was accomplished with the approval of the State Housing Board.

Rent Due - General: The records of the Temporary Construction Projects indicated rents due from tenants in the aggregate of \$2,441.01, of which \$1,761.18 was owed by former tenants.

The records of Project 200-1 indicated a total of \$5,260.28 as being due of which former tenants owed \$2,327.78.

In connection with the foregoing the rent collection policies of the Authority were reviewed and are summarized as follows:

1. Rent is due and payable on the first day of the month. If not paid by the fifth day of the month a notice is sent the tenant by the cashier advising them they are delinquent and to come to the office to pay their rent.
2. On the twelfth day of the month if no payment is made or no arrangement has been made they receive another letter, this one from the Executive Director.
3. If still no payment or arrangement made, the attorney for the Authority sends these delinquent tenants a fourteen day eviction notice for non-payment of rent.
4. If not paid at the end of the fourteen day notice, legal process is started to evict the tenant.
5. Any delinquent vacated tenant's account is immediately turned over to the Authority attorney upon the moving of the tenant.

Status of Project 200-1 - Temporary Financing: Although this project has been in occupancy for two years, it is still in Temporary Financing, apparently because of the following reasons:

1. Pending the disposition of the unfinished work, consisting principally of the failure of the painting to last.
2. Four land court cases to be tried in the Superior Court.

Payment to the City of Lowell - Temporary Construction Projects: An annual rental for the use of the land on which the project is located is paid to the City of Lowell together with a charge in the form of taxes when the assessment is made on both the land and buildings. The 1952 tax rate was \$57.80 per \$1,000.00.

Land rental is computed at the rate of \$1.25 per apartment, per month, or a total of \$4,335.00 annually. However, due to the demolition of the First Street - Colman Playstead site, only \$2,055.00 was paid.

The taxes on the land and buildings totaled \$25,056.30 for 1952, based on the following assessments:

| | <u>Apartment</u> s | <u>Building</u> <u>Assessments</u> | <u>Land</u> <u>Assessments</u> | <u>Total</u> |
|------------------|--------------------|---------------------------------------|-----------------------------------|---------------------|
| Colman Playstead | 152 | \$182,400 00 | \$45,600 00 | \$228,000 00 |
| Gorham Street | 16 | 19,200 00 | 4,800 00 | 24,000 00 |
| Ottawa Street | 22 | 26,400 00 | 6,600 00 | 33,000 00 |
| Prince Street | 28 | 33,600 00 | 8,400 00 | 42,000 00 |
| Woodward Avenue | 71 | 85,200 00 | 21,300 00 | 106,500 00 |
| | <u>289</u> | <u>\$346,800 00</u> | <u>\$86,700 00</u> | <u>\$433,500 00</u> |

The City of Lowell also received a payment of \$81.05 which represented the surplus for operations of the 1952 calendar year.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and Municipal officials. It was noted that no report of this nature had yet been made for the 1952 calendar year. It was learned from the Executive Director that this report was in the process of being compiled.

Premium on Sale of Temporary Notes: It was noted that when a premium was received from the sale of temporary notes, it was credited in its entirety to the Interest in Development account. Because of this, the Development Cost and the Interest in Development account were both understated by \$49,835.56. It would have been much better accounting to amortize this amount over the life of the bond issue.

Oil Burners - Temporary Construction Projects: Under date of October 10, 1952 the Massachusetts Department of Public Safety, Division of Fire Prevention notified the Lowell Fire Department that no permits should be issued for the keeping, storage and use of fuel oil in connection with the operation of the two sleeve type range kerosene oil burners originally installed and then being used in each of the dwellings of the above named projects, unless one of the following was accomplished:

1. Remove the two 7" sleeve type burners and install one 10" burner.
2. Remove one of the 7" sleeve type burners and operate with one 7" burner.
3. Operate with the two 7" sleeve type burners by installing a gas pilot light to each burner.

As a temporary expediency, it was decided to remove one burner and operate the heating unit with the remainder, but as the season progressed, it became apparent that one burner would be insufficient for the units' requirements. Therefore, on November 20, 1952, Invitation for Bids on the furnishing and installation of one 9" burner in each of the 137 stoves was requested from 25 distributors, and on November 28, 1952, the award was made to the lowest bidder of record at a total of \$4,014.10 representing \$29.30 for each installation.

Authorization was requested and received from the State Housing Board to make this expenditure.

Overstatement of Operating Services and Accounts Payable - Temporary Construction Projects: In analyzing the Accounts Payable account it was noted that it was overstated in the amount of \$81.25 due to the quarterly exterminating bill which should not have been set up as the contract had expired.

GARDNER HOUSING AUTHORITY

REPORT NO. 53-H-61

Permanent Financing: Project 200-3 of this Authority went into Permanent Financing on October 1, 1952 with a bond issue in the amount of \$364,000.00, the total adjusted development cost of the project. It was also noted that a premium of \$5,740.28 was received at the time of the sale of the bonds.

It is understood that the subsidy contribution from the Commonwealth for the first year under Permanent Financing will be \$9,100.00. This amount, which represents 2 1/2% of the adjusted cost of the project, is the maximum contribution allowable under the statute.

A partial payment of \$2,275.00 was made to the Second National Bank of Boston, the fiscal agent of this Authority, on March 1, 1953. The remainder of the contribution should be paid on or about September 1, 1953.

It is estimated the subsidy contribution for Project 200-2 in its second year of Permanent Financing will be \$8,345.45, computed as follows:

| | |
|---|-------------------|
| 2 1/2% of Total Costs | \$12,850 00 |
| Transfer to Reduction of Annual Commonwealth Contribution | 4,504 55 |
| | <u>\$8,345 45</u> |

This latter contribution should be paid the Second National Bank of Boston on or about June 15, 1953.

Accounts Receivable - Tenants: The accounts receivable on March 31, 1953 from this source was represented as follows from the various projects:

| | |
|---------------------------------|-------------------|
| Temporary Construction Projects | \$1,436 18 |
| Project 200-2 | 43 83 |
| Project 200-3 | 170 50 |
| | <u>\$1,650 51</u> |

Of the amount owed on account of Temporary Construction Projects, \$1,409.18 was due from tenants who had vacated their apartments and in a few instances is owed by former tenants who are presently members of the armed services. It is understood that efforts are still being made to collect balances due from other overdue accounts.

Accounts Payable: The records of this Authority, in both projects under Permanent Financing, indicate Accounts Payable - Development in the amounts of \$3,309.67 and \$4,075.83 respectively as of March 31, 1953. It was ascertained, however, that the actual liabilities to date totaled only \$620.55 and \$283.75 respectively. The variances represent anticipated costs of work not yet undertaken.

DEDHAM HOUSING AUTHORITY

REPORT NO. 53-H-62

Rent Receipts: It was noted that rent receipts are not prenumbered by a printer but are hand numbered. It is therefore suggested that prenumbered rent receipts be obtained and used.

It was further noted that the receipts used are prepared and signed in advance. They are also dated the first of the month and not as they should be, the date of the actual cash receipt. It is suggested that henceforth they be dated and signed on the date of actual receipt.

Cash Book: Cash receipts are now posted monthly rather than daily so that no verification is possible of cash deposits. This matter was discussed with the Authority accountant who advised that henceforth these items would be posted as received.

Expenses: It was noted that the various expenses are not posted to individual accounts in the general ledger but are grouped in one account - Expenses. The matter was taken up with the accountant for the Authority who agreed to post these items to separate accounts in the future.

Security Deposits: At present such deposits may be paid in installments. It is suggested that an attempt be made to collect all balances due so that all tenants will be on the same footing.

Expense Account of Executive Director: It was noted that the Executive Director has been receiving \$15.00 a month for expenses incurred by him. No approval for this appears in the minutes of meetings of this Authority.

Project Oil Burner Service Expense: It was noted that the entire cost of this service contract for all units has been paid from funds of Project 200-1, together with necessary parts which are not included in the contract. It is therefore suggested that the cost of this service be prorated according to the number of units and all parts used be charged directly to the respective project.

Expense Allowance for Maintenance Man: It was noted that the maintenance man is paid \$15.00 a month for the use of his car for travel between projects. This expenditure does not appear as approved in the minute book of this Authority's meetings.

Time Sheets: It was noted that no time sheets nor records of annual and sick leave accrued or used are maintained. It is recommended such records be kept.

MALDEN HOUSING AUTHORITY

REPORT NO. 53-H-63

Project 200-1 Disposition of Prior Year's Surplus: The project surplus for the fiscal year ended December 31, 1951 was determined to be \$21,677.55 and on advice of the State Housing Board, it was distributed as follows:

| | |
|--|--------------------|
| Transfer to Operating Reserve | \$14,568 12 |
| Transfer to Reduce Commonwealth Contribution | 7,109 43 |
| | <u>\$21,677 55</u> |

For the fiscal year ended December 31, 1952, the project surplus was determined to be \$18,849.22 and it will be disposed of by a transfer to reduce the Commonwealth's Subsidy Contribution in the 1953 year.

Project 200-2 Disposition of Prior Year's Surplus: The project surplus for the fiscal year ended December 31, 1952 was determined to be \$13,400.73, and it will be disposed of by transfer to reduce the Commonwealth's Subsidy Contribution in the 1953 year.

Temporary Construction Project - Remodelling - Lease on Apartments: The City of Malden, through its Housing Authority, leased these eight apartments for a period of five years from May 1, 1948. On May 1, 1953, the lease will expire and the apartments will revert to the owner, and at that time the books of account will be closed and the cash balances will be turned over to the City of Malden.

Temporary Construction Project - Surplus to City of Malden: The surplus from the operation of the Temporary Construction Project - Remodelling for the year ended December 31, 1952 was \$2,014.99 and for the Temporary Construction Project for the same year it was \$4,766.23.

These amounts were turned over to the City of Malden during the month of January, 1953.

Revolving Fund - Proration of Expenses: It was noted that the Authority voted to charge the Federal project during the development period with what it considered a proper portion of applicable expenses on the basis of only one hundred and fifty units.

Inasmuch as this project contains two hundred and fifty units and since it is practically completely occupied, it is suggested that this arrangement be reviewed so that possibly a more equitable distribution ratio may be determined.

DALTON HOUSING AUTHORITY

REPORT NO. 53-H-64

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each fiscal year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. This amount has previously been paid in ten monthly payments, one twelfth of the total being paid on or before the fifteenth day of each of the first nine months, and the balance being paid on or before the fifteenth day of the tenth month of the fiscal year.

However, commencing on October 1, 1952, the start of the third fiscal year, this amount is to be paid in one payment which is to be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its second subsidy payment in the amount of \$4,850.00, representing 2 1/2% of the total certified Development Cost and its third subsidy payment in the amount of \$2,977.24. This amount is \$1,872.76 less than the maximum subsidy of 2 1/2% of the Development Cost which was received in each of the first two fiscal years under Permanent Financing. This decrease was effected by applying the second fiscal year's surplus to the reduction of the maximum subsidy.

Payment in Lieu of Taxes: It was noted that the Authority made payments to the Town of Dalton in lieu of taxes during the period under audit of \$877.15, although the actual liability based on 5% of the net shelter rent totaled only \$745.95. This was caused by a payment of \$131.20 for taxes accrued during the initial operating period

although this amount had previously been remitted to the Town of Dalton.

It is suggested that the Town of Dalton be advised of this overpayment, and that steps be instituted to obtain the necessary refund.

Project 200-2

Permanent Financing: This project was transferred from Temporary to Permanent Financing on October 1, 1952 with the issuance of bonds in the amount of \$159,000.00. These bonds bear interest at the rate of 2 1/2% per year. A premium of \$2,507.43 was also received by the Authority.

The total Development Cost of this project was \$159,076.87. This amount was reduced by applying a portion of the income earned during the Initial Operating Period. The net income earned during the Initial Operating Period amounted to \$1,734.87 and was distributed to the Management Account on the following basis:

| | |
|--------------------------------------|-------------------|
| Reserve for Insurance | \$ 293 00 |
| Reserve for Payment in Lieu of Taxes | 165 00 |
| Reserve for Operations | 1,200 00 |
| Reduction of Development Costs | 76 87 |
| | <u>\$1,734 87</u> |

Debt Service Payments: The Dalton Housing Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. For the first fiscal year the amount of \$1,694.39 is to be paid in two payments; \$688.14 to be paid on or before first day of the sixth month of the fiscal year and the balance is to be forwarded to the fiscal agent on the first day of the twelfth month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, 25% of the first subsidy payment. The balance of the subsidy will be forwarded to the fiscal agent by the Commonwealth on the first day of the twelfth month of the fiscal year. The total subsidy for the first fiscal year will amount to \$3,975.00 which is 2 1/2% of the total certified Development Cost.

Interest on Investments: It was noted that interest in the amount of \$124.35, earned on the investment of Development funds which matured after entry into Permanent Financing, was credited to the Working Capital Account. This interest was not anticipated and therefore, was not used to reduce the final Development Costs of this particular project. It is therefore suggested that this amount be used to reduce current expenses of operations of this project, rather than allow it to remain in this category.

Development Accounts Payable: Attention is directed to the fact that charges totaling \$65.17, representing cost of services of a State Housing Board employee after the entry of this project into Permanent Financing was charged directly to the account for Development Accounts Payable. It is advised that this charge should have been prorated between the two projects controlled by this Authority. It is further suggested that any future expenditures which may be attributable to more than one project should be prorated.

Rent Receipts: In checking this income certain instances were noted where the records were not consistent with those normally found in comparable instances. These faults include the following:

- a) In prenumbering the rent receipts numbers of previous receipts have been duplicated.
- b) The receipts are not being used in numerical sequence.
- c) The same receipts are used for both projects.
- d) Numbers of the used receipts are not entered in the cash book.
- e) Many used receipts were not available for use in connection with this examination.

It is recommended that separate sets of rent receipts be obtained for the use of each project, that they be prenumbered by the printer, that they be used in numerical sequence and that the numbers be entered in the cash book and in the tenants' ledger.

Development Cost Accruals: It was noted that when this project entered Permanent Financing the following amounts were set aside for the following purposes:

| | |
|----------------------------|-------------------|
| Lawns and Planting | \$1,500 00 |
| Site Work - Town of Dalton | 1,584 16 |
| Bond Costs | 400 00 |
| Contingencies | 1,000 00 |
| | <u>\$4,484 16</u> |

It was further noted that \$1,467.16 included in the amount set aside for Site Work by the Town of Dalton was still unexpended at the completion of all site development work.

MANSFIELD HOUSING AUTHORITY

REPORT NO. 53-H-65

Permanent Financing: The Initial Operating Period of this project started December 22, 1951, the date of the first tenancy, and ended on September 30, 1952 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue, at an interest rate of 2 1/2%, was in the aggregate amount of \$142,000.00, the adjusted development cost of the project. A premium in the amount of \$2,239.34 was also received.

It was also noted that the profit from operations during the Initial Operating Period, \$995.32, was used to reduce the amount necessary under the bond issue and that \$1,200.00 was used to provide for a so-called Operating Reserve. These adjustments were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and mainly reserved for the payment of invoices previously incurred and accrued interest on notes outstanding under Temporary Financing.

Development Accounts Payable: It was noted that a Development Accounts Payable was paid from the Administration Fund in the amount of \$351.44. This matter should be adjusted forthwith.

Provision for Operating Reserve: It was noted that the Provision for Operating Reserve according to the approved budget for the year ending September 30, 1953, was \$453.00, whereas the amount accrued for the first six months of the year was based on a \$600.00 yearly accrual.

Minutes of Meetings: It was again noted that there were very few formal minutes of the meetings signed by the Secretary of the Authority. In the majority of instances only rough notes of the meetings were available.

Change Order: It was noted that a change order approved for drainage in the amount of \$1,163.00 was not performed by the original contractor but by an independent contractor for \$1,045.00. It is understood that this alleviated a rather poor drainage condition to a great extent. It is further understood that the town authorities are surveying the drainage problem for that section of the community which includes this project site.

HULL HOUSING AUTHORITY

REPORT NO. 53-H-66

Charges for Gas: The Authority purchases gas for cooking at a wholesale rate through consolidated purchase for all 28 units. A flat rate is, however, charged to respective tenants according to the number of rooms in their apartments. During this audit the gas purchases totaled \$531.53 whereas the gas billed to the tenants totaled \$834.90, an excess in billings of \$303.37. It is suggested that if possible this overage be returned to the respective tenants. It was noted that the Authority reduced the rates in the amount of \$.50 per unit per month as of April 1, 1953.

although this amount had previously been remitted to the Town of Dalton.

It is suggested that the Town of Dalton be advised of this overpayment, and that steps be instituted to obtain the necessary refund.

Project 200-2

Permanent Financing: This project was transferred from Temporary to Permanent Financing on October 1, 1952 with the issuance of bonds in the amount of \$159,000.00. These bonds bear interest at the rate of 2 1/2% per year. A premium of \$2,507.43 was also received by the Authority.

The total Development Cost of this project was \$159,076.87. This amount was reduced by applying a portion of the income earned during the Initial Operating Period. The net income earned during the Initial Operating Period amounted to \$1,734.87 and was distributed to the Management Account on the following basis:

| | |
|--------------------------------------|-------------------|
| Reserve for Insurance | \$ 293 00 |
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| Reserve for Operations | 1,200 00 |
| Reduction of Development Costs | 76 87 |
| | <u>\$1,734 87</u> |

Debt Service Payments: The Dalton Housing Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. For the first fiscal year the amount of \$1,694.39 is to be paid in two payments; \$688.14 to be paid on or before first day of the sixth month of the fiscal year and the balance is to be forwarded to the fiscal agent on the first day of the twelfth month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, 25% of the first subsidy payment. The balance of the subsidy will be forwarded to the fiscal agent by the Commonwealth on the first day of the twelfth month of the fiscal year. The total subsidy for the first fiscal year will amount to \$3,975.00 which is 2 1/2% of the total certified Development Cost.

Interest on Investments: It was noted that interest in the amount of \$124.35, earned on the investment of Development funds which matured after entry into Permanent Financing, was credited to the Working Capital Account. This interest was not anticipated and therefore, was not used to reduce the final Development Costs of this particular project. It is therefore suggested that this amount be used to reduce current expenses of operations of this project, rather than allow it to remain in this category.

Development Accounts Payable: Attention is directed to the fact that charges totaling \$65.17, representing cost of services of a State Housing Board employee after the entry of this project into Permanent Financing was charged directly to the account for Development Accounts Payable. It is advised that this charge should have been prorated between the two projects controlled by this Authority. It is further suggested that any future expenditures which may be attributable to more than one project should be prorated.

Rent Receipts: In checking this income certain instances were noted where the records were not consistent with those normally found in comparable instances. These faults include the following:

- a) In prenumbering the rent receipts numbers of previous receipts have been duplicated.
- b) The receipts are not being used in numerical sequence.
- c) The same receipts are used for both projects.
- d) Numbers of the used receipts are not entered in the cash book.
- e) Many used receipts were not available for use in connection with this examination.

It is recommended that separate sets of rent receipts be obtained for the use of each project, that they be prenumbered by the printer, that they be used in numerical sequence and that the numbers be entered in the cash book and in the tenants' ledger.

Development Cost Accruals: It was noted that when this project entered Permanent Financing the following amounts were set aside for the following purposes:

| | |
|----------------------------|-------------------|
| Lawns and Planting | \$1,500 00 |
| Site Work - Town of Dalton | 1,584 16 |
| Bond Costs | 400 00 |
| Contingencies | <u>1,000 00</u> |
| | <u>\$4,484 16</u> |

It was further noted that \$1,467.16 included in the amount set aside for Site Work by the Town of Dalton was still unexpended at the completion of all site development work.

MANSFIELD HOUSING AUTHORITY

REPORT NO. 53-H-65

Permanent Financing: The Initial Operating Period of this project started December 22, 1951, the date of the first tenancy, and ended on September 30, 1952 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue, at an interest rate of 2 1/2%, was in the aggregate amount of \$142,000.00, the adjusted development cost of the project. A premium in the amount of \$2,239.34 was also received.

It was also noted that the profit from operations during the Initial Operating Period, \$995.32, was used to reduce the amount necessary under the bond issue and that \$1,200.00 was used to provide for a so-called Operating Reserve. These adjustments were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and mainly reserved for the payment of invoices previously incurred and accrued interest on notes outstanding under Temporary Financing.

Development Accounts Payable: It was noted that a Development Accounts Payable was paid from the Administration Fund in the amount of \$351.44. This matter should be adjusted forthwith.

Provision for Operating Reserve: It was noted that the Provision for Operating Reserve according to the approved budget for the year ending September 30, 1953, was \$453.00, whereas the amount accrued for the first six months of the year was based on a \$600.00 yearly accrual.

Minutes of Meetings: It was again noted that there were very few formal minutes of the meetings signed by the Secretary of the Authority. In the majority of instances only rough notes of the meetings were available.

Change Order: It was noted that a change order approved for drainage in the amount of \$1,163.00 was not performed by the original contractor but by an independent contractor for \$1,045.00. It is understood that this alleviated a rather poor drainage condition to a great extent. It is further understood that the town authorities are surveying the drainage problem for that section of the community which includes this project site.

HULL HOUSING AUTHORITY

REPORT NO. 53-H-66

Charges for Gas: The Authority purchases gas for cooking at a wholesale rate through consolidated purchase for all 28 units. A flat rate is, however, charged to respective tenants according to the number of rooms in their apartments. During this audit the gas purchases totaled \$531.53 whereas the gas billed to the tenants totaled \$834.90, an excess in billings of \$303.37. It is suggested that if possible this overage be returned to the respective tenants. It was noted that the Authority reduced the rates in the amount of \$.50 per unit per month as of April 1, 1953.

Commonwealth Contribution: During the first fiscal year under Permanent Financing this Authority received the maximum possible Commonwealth contribution of \$8,125.00 based on 2 1/2% of the total development costs. At the close of that fiscal year there was a surplus balance of \$1,738.83 which was disposed of by transferring \$1,035.83 to the Operating Reserve and reducing the subsequent Commonwealth contribution by \$703.00. After these transactions were entered, a balance of \$7,147.27 remained in the Operating Reserve Account at the close of the second fiscal year under Permanent Financing. Inasmuch as it is understood that the maximum Operating Reserve, to be developed over a 5 year period, is only \$8,400.00. It is questioned why the State Housing Board did not apply the entire surplus toward the reduction of the second year's Commonwealth contribution.

Contracts Awarded: It was noted that an Oil Burner Service Contract was awarded to the second lowest bidder of record. It was maintained by the Authority that the lowest bidder was not properly qualified and that the second lowest bidder had previously performed a similar contract in a highly satisfactory manner. The difference between the two bids was only \$14.00.

ATHOL HOUSING AUTHORITY

REPORT NO. 53-H-67

Permanent Financing: This project entered Permanent Financing as of July 1, 1952. On that date the cash balance in the Development Fund was \$39,893.56 and in addition there were on hand \$15,023.48 United States Treasury Bills. These assets were applied as follows:

| | | |
|--|-------------|--------------------|
| Accounts Payable (Total) | | \$59,314 04 |
| Unamortized Note Premium | | 1,686 00 |
| Temporary Notes | | 4,000 00 |
| | | <u>\$65,000 04</u> |
| Cash Available | \$39,893 56 | |
| U. S. Treasury Bills | 15,023 48 | 54,917 04 |
| Excess of Liabilities over Cash Available | | <u>\$10,083 00</u> |
| Accounts Receivable from Administration Fund | | <u>\$10,083 00</u> |

On that date the cash balance in the Administration Fund was \$15,431.62. This amount was distributed as follows:

| | |
|--|--------------------|
| Accounts Payable - To Development - Surplus) | \$10,083 00 |
| Accrued Insurance | 1,000 00 |
| Accrued Payment in Lieu of Taxes | 335 00 |
| Operating Reserve | 4,020 00 |
| | <u>\$15,438 00</u> |
| Cash Available | 15,431 62 |
| Excess of Liabilities over Available Cash | \$6 38 |
| Accounts Receivable - Tenants | <u>6 38</u> |

This project entered permanent financing with the issue and sale of bonds in the amount of \$406,000.00. The purchaser of these bonds was the Chase National Bank of New York and Associates, and their bid appeared to be the most advantageous of those seen. It was further noted that a premium of \$7,835.39 was received.

The Commonwealth may make a contribution of not more than 2 1/2% of the total Development Cost, which should amount to \$10,150.00 during the first year under permanent financing. In this connection there has already been paid to the National Shawmut Bank of Boston, the fiscal agent for this Authority, \$2,537.50 on December 1, 1952, representing 25% of this subsidy. The remaining 75% will be paid to the fiscal agent on or before June 1, 1953.

Accounts Payable: It was noted that certain vouchers which simply stated "General Repairs to all Buildings" have been paid. This practice of paying vouchers with such scant detail is questioned and it is therefore suggested that no vouchers should be paid until complete information with respect to the work performed is made available.

It was also noted that disbursements were made from the Petty Cash Fund for

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maintenance, labor and truck hire. It is advised that the Petty Cash Fund should not be used for such expenditures, and that checks should be issued for these items upon the presentation of properly detailed invoices.

BELMONT HOUSING AUTHORITY

REPORT NO. 53-H-68

Contract for Maintenance Services: It was noted that a former treasurer of this Authority was awarded the contract for maintenance services at \$4,920.00 per annum. This same individual was also awarded the contract for oil burner service at \$1,800.00 and for the installation of storm windows and screens at \$9,100.00. It was also noted that all necessary parts under the maintenance and the oil burner service contracts are charged for separately by him.

Accrued Payment in Lieu of Taxes: The previous audit report suggested that payment be accrued for this item. Inasmuch as this recommendation was not accepted, attention is again directed to it.

Heating Contract: It was noted that a lawsuit is pending against the heating subcontractor. The Authority alleges in this connection that the heating system installed was not according to specifications. Because of the unsatisfactory installation, it is contended that the tenants paid higher fuel charges than would normally be necessary. It is also charged that the Authority's maintenance charges have also been higher than would ordinarily have been warranted.

Petty Cash: Petty cash vouchers were found to be represented as plain pieces of paper with no explanation or detail. It is suggested that printed vouchers be obtained and they include all necessary information.

Annual Meeting: A letter was seen from the State Housing Board indicating that the Authority's annual meeting had been held on the wrong date. It was also suggested that another meeting be called to ratify any actions taken at the illegal meeting of March 10, 1953.

In accordance therewith, a meeting was held on May 4, 1953.

CHICOPEE HOUSING AUTHORITY

REPORT NO. 53-H-69

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with monies received from other sources, will equal that fiscal year's total debt requirements. For the first fiscal year this amount was paid in ten monthly payments, one-twelfth being paid on or before the fifteenth day of the month in each of the first nine months and the balance being paid on or before the fifteenth of the tenth month of the fiscal year. However, starting with January 1, 1953, the beginning of the second fiscal year under Permanent Financing, this amount will be paid at one time and will be forwarded to the fiscal agent on the first day of the eleventh month of the fiscal year.

This Authority has received, as provided in its Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$54,600.00. This amount, which is equal to 2 1/2% of the total certified development cost, is the maximum subsidy permissible under the statute. This payment by the Commonwealth was made directly to the fiscal agent of the Authority.

Project Rents: It appears that the rents charged are more than adequate to meet the operating costs of this project. Attention is also called to the fact that the project's profit for the first fiscal year, after taking into consideration the 2 1/2% subsidy received from the Commonwealth, amounted to \$22,442.35.

At present the Authority is charging the tenants with one or two minor dependents 18% of their income and those with three or more minor dependents 14% of their total income. The Authority is in the process of reverifying tenants' incomes, which, when applied, should result in a substantial increase in the dwelling rent income. It is urged that the Authority allow all permissible deductions from gross income as set forth in the State Housing Board directive entitled "Requirements for Management and Operation of State-Aided Veterans' Housing".

Temporary Construction Project

Transfer of Funds from City of Chicopee: The following item was included in the Aldermanic Records, City of Chicopee, page 16, dated August 6, 1946:

"Ordered that the City Auditor be and is hereby authorized to transfer the sum of Four Thousand Dollars (\$4,000.00) from the Excess and Deficiency Account to the Housing Authority Maintenance Account under the provisions of Chapter 372 of the Acts of 1946."

In connection with the foregoing it was noted that the amount indicated was received by this Authority and was deposited in the Holyoke National Bank. There is, however, no record of this item on the financial records of this Authority. It is understood that this will be used in connection with providing housing for Veterans of World War II under the provisions of Chapter 372 of the Acts of 1946. Expenditures in the amount of \$211.15 were made from this appropriation in connection with the Meadow Terrace Federal Project for which the Authority reimbursed the fund. This project was transferred to the City of Chicopee by the Public Housing Authority on January 1, 1950 with the Chicopee Housing Authority acting as agent for the City.

It is, therefore, recommended that the amount of \$4,000.00 be recorded on the financial records of the Meadow Terrace Project and that it be turned over to the City of Chicopee.

PLYMOUTH HOUSING AUTHORITY

REPORT NO. 53-H-70

Commonwealth Contribution: It was noted that the Commonwealth Contribution for the second fiscal year under Permanent Financing amounted to \$10,054.00. This amount is \$1,121.00 less than the maximum subsidy of \$11,175.00 which was received for the first fiscal year under Permanent Financing.

Contract for Architectural Services: The previous audit report stated that an overpayment of \$8,754.03 had been made to the architect, and it recommended that the State Housing Board recompute the fee and take steps to recover the excess payment.

It was noted that during the period under audit the State Housing Board had submitted to the local Authority a recomputed fee which substantiated the overpayment stated above. The Authority has not acted on this matter because the Chairman has taken the position that any action for the recovery of the overpayment should be undertaken by the State Housing Board.

Payment to General Contractor: The previous audit report noted that a lawsuit in the amount of \$5,300.52 was pending against the Authority. This suit was initiated by the general contractor for the payment of electrical work done by him and for which he was not paid.

During the current audit it was observed that the contractor was awarded the amount stated above by the court.

WESTBOROUGH HOUSING AUTHORITY

REPORT NO. 53-H-71

Commonwealth Subsidy: The Commonwealth may make an annual contribution of not more than 2 1/2% of the Development Cost which for this Authority is \$3,800.00. In this connection it was noted that the contribution during the third year under Permanent Financing was \$3,642.45, and was paid to the fiscal agent, the National Shawmut Bank of Boston, on February 20, 1953.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for approximately seven months before any payments are made from it. No arrangements have as yet been made to have any interest paid or credited by the fiscal agent for the use of these funds.

MEDFORD HOUSING AUTHORITY

REPORT NO. 53-H-72

General - Appointment of Members to the Authority: This Authority is again functioning with a board member whose term of office has expired.

In this connection there appears to be a conflict of opinion as to the appointment of members to Housing Authorities in cities where the City Manager form of government

exists.

The State Housing Board contends that the City Manager must submit his appointments of members to the City Council for approval. The City Solicitor of the City of Medford, however, has advised that the approval of the City Council is not necessary.

Since this situation is of importance to several other housing authorities, it is suggested that the State Housing Board obtain an opinion from the Attorney General in order to determine the proper procedure.

Acquisition of Land - Project 200-2: The previous audit report recommended that payment on a check dated January 24, 1951 in the amount of \$268.00 be stopped and a new check be issued. This check has been paid to the City of Medford for purchase of land.

Since this recommendation has not yet been adopted, attention is again directed to it.

Status of Project 200-2: Although it is more than three and one half years since the Contract for Financial Assistance was negotiated, this project is still in the planning stage. It is understood that this delay is due to the fact that the City of Medford has suggested that single homes be built in lieu of the multiple units originally planned.

The City Council had originally agreed to contribute not in excess of \$500,000.00 for this purpose but it is now the opinion of the city government that the entire cost should be financed by the Housing Authority.

It is understood that an architect has prepared plans and estimates for the construction of only 123 duplex and single homes, whereas it had originally planned to construct 150 multiple units.

WESTFIELD HOUSING AUTHORITY

REPORT NO. 53-H-73

Vacancy Losses: It was noted during the first fiscal year's operations, this Authority had a loss of revenue because of vacancies totaling \$4,060.47. The records indicate that there were average monthly vacancies of 7 units for that year.

Accounts Receivable - Tenants' Rents: It was again noted that several of the tenants' accounts for dwelling rent were not being maintained on a current basis. As of April 30, 1953 there were outstanding balances of \$789.50. Of this amount items totaling \$248.00 will probably be written of as uncollectible. It is urged that every effort be made to maintain these accounts on a current basis.

Surplus Funds: The possible investment of the Authority's surplus cash was discussed with the Chairman of the Authority, and as a result it is understood that \$5,000.00 in cash will be deposited in savings accounts where it may earn interest.

Bonds and Interest: To the date of this audit, the fiscal agent of this Authority had already transferred to its paying agent the sum of \$27,512.50 as follows:

| | |
|------------------------------|--------------------|
| Interest Due October 1, 1952 | \$ 7,759 90 |
| Interest Due April 1, 1953 | 7,752 60 |
| Bonds Maturing April 1, 1953 | 12,000 00 |
| | <u>\$27,512 50</u> |

NEEDHAM HOUSING AUTHORITY

REPORT NO. 53-H-74

Appropriated Funds - General: In order to assist in organizing the housing program in the Town of Needham, there was appropriated \$3,756.89 to be used by this Authority. Of this amount \$3,256.89 is still on hand and has been in this inactive category for the past several years. It is suggested that the balance now be returned to the Town since it appears that there is no longer any need for it.

It was further noted that interest in the amount of \$81.90 has been earned on this account. This interest, however, had not been entered on the records and it is therefore suggested that appropriate adjusting entries be effected.

Delays in Filling Apartments - General: It was noted on several occasions units were vacant for a month or more before they were rented. It is suggested that steps be taken to fill vacancies currently to avoid vacancy losses.

Dispute in Site Improvement Contract - Project 200-1: A dispute has developed between the Site Improvement Contractor and the Authority over various matters pertaining to the preparation of the project site. Inasmuch as no agreement could be reached by the Contractor, the Authority and the Architect the matter was referred to the former Chairman of the State Housing Board. The contentions of those concerned together with the decision of the former Chairman of the State Housing Board follow:

| | Claimed by the Authority | Claimed by the Contractor | Decision of the Chairman of the State Housing Board |
|---|-----------------------------|------------------------------|---|
| Fill | \$5,723 40 | \$31,545 55 | \$30,990 00 |
| Trench Ledge | 2,094 10 | 7,645 90 | 5,357 00 |
| House Foundation Ledge Areas | - | 2,437 50 | - |
| Miscellaneous* | - | 5,000 00 | 5,000 00 |
| Deduction by Authority for Fill Not Made | (1,400 00) | - | (1,684 30) |
| | <u>\$6,417 50</u> | <u>\$46,628 95</u> | <u>\$39,662 70</u> |

* Includes trees removed, extra excavation, disposal of ledge surplus.

Attention is directed to the fact that the original contract was in the amount of \$83,333.00. To date approved change orders other than those being litigated total \$43,679.55, bringing the total adjusted contract price to \$127,012.55. This latter amount has already been paid to the contractor.

The Authority appealed the aforementioned decision to the former Chairman of the State Housing Board but a rehearing was denied. The present Chairman of the State Housing Board, however, held a hearing on this matter which resulted in a reaffirmation of the original decision. In this connection the Attorney General rendered the following informal opinion:

"It is, therefore, our opinion, that very likely nothing would be gained by authorizing the expenditure of further money to litigate this matter. A favorable decision in the Courts does not appear to be a probable result."

The attorney for the Authority, however, has since filed an Introductory with the Court and the Authority is presently awaiting a ruling as to the merits of the case.

Administration Fund Balance - Project 200-1: The balance in the Administration Fund on April 30, 1953 was \$38,515.47. While a great part of these funds will be needed when settlement is finally made with the site contractor, it is suggested that the Authority review the possibility of investing these funds where interest may be earned.

Vacancy Loss - Project 200-1: Although vacancy losses have been experienced by this Authority, no Vacancy Loss Account is carried on the books as is prescribed by the State Housing Board.

It is suggested that such an account be opened and maintained to reflect the actual vacancy losses.

Uncollected Security Deposit - Project 200-1: It was noted that a tenant who was rented a unit in September 1952 has only paid in \$2.00 of the required \$10.00 Security Deposit. It is suggested that the balance be collected.

Contribution to Pension Fund - Temporary Construction Project: It was noted that a contribution to Pension Funds made by the Authority was charged in error to Management Expense. It is recommended that appropriate adjusting entries be made.

Deposit of Transfer Check - Temporary Construction Project: It was noted that a check was drawn on the Temporary Construction Project bank account to reimburse Project 200-1 for an item purchased by it but used by the Temporary Construction Project. It was, however, deposited in error to the Temporary Construction bank account. This matter should be adjusted forthwith.

Contracts Awarded - Project 200-1: It was seen that the contract for construction of a chain link fence was awarded to the second lowest bidder. The difference between the two lowest bids was only \$38.50. The reason advanced for this award was that the lowest bidder had failed to submit certain required drawings showing the extent and location of the fence.

BRAINTREE HOUSING AUTHORITY

REPORT NO. 53-H-75

Surplus - Title V: It was noted that \$6,309.85 was paid on March 23, 1953 to the Town of Braintree representing the profit from this project's 1952 operations.

Rent Roll - Both Projects: It was noted that no rent roll or space cards are being maintained. This matter was brought to the attention of proper personnel and it was understood that the necessary records will be established.

Insurance - Title V: It was noted that a duplicate insurance policy for monies and securities was purchased for a period of three years from October 1952. When this matter was brought to the attention of the necessary personnel, steps were taken to cancel it with a resultant savings of \$50.00.

FRAMINGHAM HOUSING AUTHORITY

REPORT NO. 53-H-76S

Chapter 200 - Project 200-1 - Administration Fund: It was noted that Check #426 was correctly entered in the Cash Book and the Check Book as \$21,694.83. However, the check was actually written for \$21,964.83 and resulted in an overpayment of \$270.00. This payment was made to the Fiscal Agent of the Authority for Debt Service Requirements.

This matter was discussed with necessary personnel and it was understood that immediate steps will be taken to recover this overpayment.

BARNSTABLE HOUSING AUTHORITY

REPORT NO. 53-H-77

Local Fund: There was received \$1,306.00 from the Town of Barnstable in 1949 for preliminary expenses of the Authority. As of the date of audit the balance in this fund was \$716.67. There were no receipts or disbursements during the period under audit.

Temporary Construction Projects - Operating Budgets: Attention is directed to the fact that the approved operating budgets from the State Housing Board for the two fiscal years ending December 31, 1953, had not been compiled and submitted to the State Housing Board for approval as is required in the regulations of the State Housing Board.

Temporary Construction Projects - Sale of Buildings: During the period under audit buildings and equipment were sold after competitive bidding for \$1,938.67.

In this connection it is understood that the Authority has under consideration the sale of the remaining four buildings in the near future.

Project 200-1 - Acceptance of the Project: It was noted that Part II of the Certificate of Completion had not been processed and final payment to the contractor has not yet been made.

In this connection it was learned that there had been several meetings of this Authority with representatives of the State Housing Board, and the general contractor concerning the final acceptance of the project.

It is understood that the delay is due to the fact that the balance to be paid the contractor has not yet been agreed upon.

Project 200-1 - Vacancy Loss: It was again noted that contrary to the directions of the State Housing Board no vacancy loss was considered in determining the dwelling rent schedule. It is therefore again recommended that the necessary entries be made in order to accurately reflect all periods of vacancy.

Project 200-1 - Tenants' Ledger: The previous audit report commented that a trial balance of the tenants' ledger could not be computed because the ledger had not been currently posted.

In connection with the current audit it was attempted to take a trial balance of the ledger and it was noted that the detail in that ledger was not in agreement with the related control account in the general ledger.

It was further noted that many clerical errors had developed, in addition the several errors noted in connection with the previous audit had not been adjusted.

It is most important that this ledger be posted currently and that it always be in agreement with the control account in the general ledger.

Project 200-1 - Quarterly Financial Reports: Attention is directed to the fact that this Authority did not submit to the State Housing Board its Quarterly Financial Reports for the periods April 1, 1952 to June 30, 1952 and January 1, 1953 to March 31, 1953 as is required by the regulations of the State Housing Board.

MILLBURY HOUSING AUTHORITY

REPORT NO. 53-H-78

Financing: This Authority is still in Temporary Financing and owes its Fifth Series notes in the amount of \$315,000.00. These notes were purchased by the Branch Banking and Trust Company of Wilson, North Carolina with a bid of 6% and a premium of \$16,845.15 reducing the rate to a net of .74%.

Accounts Receivable: The records of this Authority indicate an account termed "Accounts Receivable - Filter Bed" with a balance of \$23,152.95, as of the audit date, and was occasioned by the fact that it became necessary to re-bed the filter bed. The Authority is presently in litigation in an effort to have the original contractors stand the expense of this additional work.

This naturally has the effect of creating a contingent asset and will so remain until the matter is adjudicated. If the Authority is unsuccessful in its suit then this amount will naturally be added to the total Development Costs. It is understood that when this matter is cleared up, steps will be taken to enter this project in Permanent Financing.

Development Accounts Receivable: There were two delinquent accounts, totaling \$89.50, on the books of the Authority as of May 31, 1953. One of these is owed by a tenant who vacated owing \$79.50. It was noted that an attorney has been engaged to try to effect collection of this item.

WILMINGTON HOUSING AUTHORITY

REPORT NO. 53-H-79

Premium on Sale of Temporary Notes: When the premium was received from the sale of Temporary notes, it was credited to Interest in Development account in the general ledger. Because of this procedure the Development Cost and the Interest in Development accounts were each understated in the amount of \$2,630.32 as of the date of audit. Henceforth it is suggested that all premiums so received should be amortized on a monthly basis.

Certificate of Purposes and Statement of Cash Requirements - State Housing Board Form #46: It was noted that there was not on file the most recent amended form substantiating the \$200,000.00 Contract for Financial Assistance. To get the necessary data so that it would be possible to reconcile the Analysis of Development Costs, it was necessary to contact the State Housing Board. It was understood that a copy of this form would soon be made available to the Authority.

Members of the Authority: Attention is directed to the fact that this Authority has been functioning with one vacancy in its membership since December 30, 1952. This vacancy, which involves the State Housing Board representative, was brought to the attention of the State Housing Board in January 1953, but to date no action has been taken to fill it.

BROOKLINE HOUSING AUTHORITY

REPORT NO. 53-H-80

Commonwealth Contribution: The operating loss of this project for the fiscal year ended September 30, 1952 amounted to \$74,095.87 before taking into consideration the maximum Commonwealth Contribution of \$83,650.00. Acting on instructions from the State Housing Board, the surplus of \$9,554.13 which resulted from the excess of the subsidy over the loss was reserved for the purpose of reducing the Commonwealth Contribution for the fiscal year ending September 30, 1953. It was further noted that the

State Housing Board subsequently approved a reduced subsidy of \$74,095.87 for this second fiscal year.

Pay Roll: In checking the approved pay roll rates of personnel to the minutes of the meetings, it was noted that a recent pay increase received by one of the employees had not been authorized by a recorded vote of the members. It is recommended that all changes in rates which have been approved by the Authority be recorded in the minutes of the meetings.

Rental Adjustments: An examination of the tenants' records indicated that the custodian of the tenants' ledger has not been required to obtain the approval of the Executive Director before making a rental adjustment because of a change in a tenant's income or family status. It is recommended that the Executive Director approve all rental adjustments.

HOLYOKE HOUSING AUTHORITY

REPORT NO. 53-H-81

Federal Projects: The financial records of the Federal Projects Mass. 5-1 and Mass. 5-2 were not examined in connection with this audit. Although this Authority has financed these projects, it receives a subsidy from the Federal Government under Public Laws 671 and 412. Because of this, the projects are subject to regular audit by the auditors assigned by the Federal Public Housing Administration.

Chapter 372 - Subsidy: Under the provisions of Chapter 372 of the Acts of 1946, as amended, the City of Holyoke is entitled to receive a subsidy of 10% of the actual development costs of the local project, payable at the rate of 2% per annum for a period of five years. As of the date of audit the City of Holyoke had received in this connection a total of \$55,059.20, the maximum subsidy permissible, representing five payments of \$11,011.84 each. The payments were based on the total development costs of \$550,591.81.

Project 200-1

Debt Service Payments: The Holyoke Housing Authority pays into its Debt Service Fund each year from rental income an amount which together with amounts received from other sources equals that fiscal year's total debt requirement. For the first fiscal year ending December 31, 1952 it was paid in ten monthly payments - one-twelfth on or before the fifteenth day of the month in each of the first nine months, and the balance on the fifteenth day of the tenth month of the fiscal year. However, starting from the second fiscal year under Permanent Financing, it will be paid in one installment and will be forwarded to the fiscal agent on or before the second day of the eleventh month of the fiscal year.

Commonwealth Contributions: This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$48,050.00 which represents 2 1/2% of the total certified development cost. There has also been received \$20,232.80 representing the second annual subsidy contribution. This lesser amount was established by applying the first year's operating surplus toward the reduction of the maximum subsidy. Payments were made directly to the fiscal agent for the Authority.

Refund of Expenses - Initial Operating Period: In this connection the following comment appeared in the previous audit report:

"The Holyoke Housing Authority received a refund of \$2,639.72 for fuel paid for in the initial operating period. This refund was received after the initial operating period books had been closed, and, therefore, could not be used as a reduction of the bond issue. The State Housing Board has recommended that this amount be set up in the operating reserve. However, the Authority has set this amount up in surplus. It is recommended that the amount be retained in the surplus account and be used to reduce the subsidy payment of the Commonwealth."

It was noted, however, that this amount, less certain charges in the amount of \$450.17, was transferred to the Operating Reserve. It is recommended that this amount be credited to surplus and be applied to further reduce the subsequent Commonwealth Contribution.

Development Fund Cash Excess: As of May 31, 1953 the balances in the Development Accounts Payable totaled \$6,040.96, and the balance of the Development Cash account was \$8,077.87. This excess of \$2,036.91 was created by the payment of Development Cost expenses from the Administration Fund at the time of entry into Permanent Financing. It is advised that necessary adjustments be made so that the correct cash balances may be represented.

Development Cost Accounts Payable: Although this project has been in Permanent Financing for approximately 1 1/2 years, there still appear unliquidated Development Accounts Payable in the amount of \$6,040.96. This amount originally represented accruals at the time of entry into Permanent Financing for additional site work and the purchase of a truck and maintenance equipment. It is now understood that there is no intention of taking any action on either of these items.

It is therefore recommended that this liability be closed out and that corresponding assets be used to reduce the next Commonwealth's subsidy. The financial records certainly should not continue to include a liability that does not exist.

Project Rents: It was noted that the rents charged appeared to be adequate to cover the operating costs. In this connection attention is directed to the fact that the operating profit for the first fiscal year, after taking into consideration the 2 1/2% subsidy received from the Commonwealth, totaled to \$27,817.20.

It is therefore suggested that the present rent schedule be reviewed with the possible result that rents may be adjusted downward.

Vacancy Losses: During this audit period the vacancy loss has increased substantially. Although it is realized that a certain amount of reconditioning work is necessary when an apartment is vacated, it is noted that the present periods of idleness appear to be of excessive length and should be reduced.

It is further recommended that the vacancy loss be computed in accordance with the procedure as outlined in the manual of instructions issued by the State Housing Board.

Computation of Rents: It is suggested that the Authority exercise more care in the computation of tenants' rents.

It was also noted that the computation regarding the inclusion of income account of pensions for disabled veterans has been inconsistently interpreted and in this connection attention is called to the following excerpt from Chapter 313 of the Acts of 1951:

"In determining the net income for the purpose of computing the rent of a totally unemployable disabled veteran, a housing authority is authorized to exclude amounts of disability compensation paid by the United States government for disability occurring in connection with military service in excess of eighteen hundred dollars in any year, but such authorization shall apply only in state-aided projects and while such projects are receiving state financial assistance, as provided in sections twenty-six NN and twenty-six OO."

NAHANT HOUSING AUTHORITY

REPORT NO. 53-H-82

Debt Service Fund: Subsequent to the second fiscal year under Permanent Financing an entry was made by the Authority indicating the retirement of \$3,000.00 of outstanding bonds. This entry credited the Development Cost Liquidation account and debited the Bonds Retired account. Because of making only these entries the Debt Service Fund account and the Matured Interest and Principal account do not show the retirement of these bonds, and the cash and the corresponding liability accounts were both overstated in the amount of \$3,000.00. It is recommended that appropriate adjustments be made forthwith.

Rent Receipts Issued: It was noted that rent receipts are prepared in anticipation of rent collections. However, when tenants make only partial payments, the prepared

receipt is not issued until the entire amount is collected. It is advised that individual receipts be issued for all collections and that they be prepared when the related collections are made.

Administration Fund Cash Balance: On the audit date the balance in this fund was \$10,878.09. It would appear that a balance of this size is unnecessary and it is recommended that possibly a portion of this balance might be invested in government securities or in a savings account where interest might be earned.

Commonwealth Contribution Account: It was noted that although the Commonwealth Contribution for the third fiscal year under Permanent Financing had been received by the fiscal agent and charged to the Debt Service Fund account, the corresponding credit had not been posted to the Commonwealth Contribution account. It is suggested that necessary adjustments be made.

Insurance Reserve: Prior to entering into Permanent Financing an estimated insurance reserve of \$1,275.00 was established. However, in October 1951 the insurance was purchased at a cost of only \$1,200.75. On the date of this audit a balance of \$74.25 remained in the insurance reserve account. It is suggested that this balance be transferred to surplus.

Budget Overrun: It was noted that the Management Expenses for the fiscal year ended September 30, 1952 exceeded the budget allowance in the amount of \$104.68. It was noted that this amount was occasioned because the fiscal fees were greater than those anticipated.

ROCKPORT HOUSING AUTHORITY

REPORT NO. 53-H-83

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain state and municipal officials. It was noted, however, that no report for the calendar year 1952 had yet been made. It is therefore recommended that the necessary steps be taken to compile and submit this delinquent report.

Minutes of the Authority's Meetings: It was noted that for the period from March 31, 1952 to May 31, 1953 the minutes of the Authority's meetings contained only scant information as to what actually transpired. These minutes should include more detailed information with respect to the financial activities of the Authority.

Accounts Payable - Development: The balance in this account on May 31, 1953 was \$1,609.53. It was learned that approximately \$1,500.00 of this amount will be used when this project will be connected with the sewerage system of the Town of Rockport. At present, septic tanks are in use which overflow creating additional expense as well as poor sanitary conditions. The Town of Rockport will install the system which it is estimated will cost approximately \$3,000.00. This expenditure has been approved by the State Housing Board and it is understood that one half of the cost will be paid from the Development Fund and the other half from the Operating Reserve account.

Permanent Financing: As the result of the first fiscal year of operations under Permanent Financing a deficit of \$148.93 was indicated, after taking into consideration receipt of the Commonwealth's Contribution of \$4,075.00. This deficit was transferred to the Operating Reserve account.

It was noted that provisions had been made to retire outstanding bonds in accordance with the Debt Service Schedule.

The Debt Service requirements for the second fiscal year ending June 30, 1953 was established at \$6,400.00 and comprises the following:

| | |
|------------------------------|-------------------|
| Commonwealth Contribution | |
| (2 1/2% of Development Cost) | \$4,075 00 |
| 2 1/2% of the Bond Premium | 45 19 |
| Investment Profit | 15 72 |
| Authority's Share | <u>2,264 09</u> |
| | <u>\$6,400 00</u> |

Contract Awarded for Furnishing Oil Burner Service: It was noted that the records of the original bids as well as a copy of the contract awarded for the servicing of oil burners could not be located in the Authority's files. A letter of approval from the State Housing Board for this contract was noted. It is recommended that more care be exercised in filing documents of this nature.

FRANKLIN HOUSING AUTHORITY

REPORT NO. 53-H-84

Commonwealth Contribution: The Commonwealth's contribution for the third complete year under Permanent Financing will be \$7,000.00. This amount will be paid to the Second National Bank of Boston, the Authority's fiscal agent, on or about June 9, 1953.

Accounts Payable - Development: The records of this Authority indicate a balance of \$261.25 in an account called Accounts Payable - Development, as of May 31, 1953. An effort was made to determine whether such a liability existed, and it was found that none existed. It is, therefore, suggested that this account be accordingly adjusted.

Surplus - Second Year: It was noted that there was no surplus balance at the end of the second year's operations under Permanent Financing. The analysis of the Surplus Account is shown as follows:

| | | |
|---|------------|-------------------|
| Surplus Balance before Capital Improvements | | \$2,587 37 |
| Capital Improvements: | | |
| Drainage | \$3,273 22 | |
| Combination Doors | 1,719 00 | 4,992 22 |
| Excess Amount Transferred to "Operating Reserve" | | <u>\$2,404 85</u> |

Capital Improvements: During this audit period the following contract awards were awarded for capital improvements:

| | | |
|--|----------|-------------------|
| Drainage: | | |
| Original Contract and Lowest Bid | | \$3,129 22 |
| Add: | | |
| Change Order No. 1 | \$840 00 | |
| Rock Excavation - 14 cu. yds. @ \$18.00 per cu. yd. | 252 00 | 1,092 00 |
| | | <u>\$4,221 22</u> |
| Contract Plans and Drawings | | 392 00 |
| Total Cost of Drainage | | <u>\$4,613 22</u> |
| Payments to May 31, 1953 | | <u>3,273 22</u> |
| Balance | | <u>\$1,340 00</u> |

The indicated contract balance is not reflected anywhere on the books of the Authority. When payments will be made to the contractor the Capital Improvements account will be charged.

| | | |
|----------------------------------|--|-----------------|
| Combination Doors: | | |
| Original Contract and Lowest Bid | | \$1,719 00 |
| Payments to May 31, 1953 | | <u>1,719 00</u> |

IPSWICH HOUSING AUTHORITY

REPORT NO. 53-H-85

Rent Receipts Issued - General: It was noted that the regular form of rent receipt books had not been used in numerical sequence. In one instance a receipt book was used for the two projects. It is recommended that separate receipt books be used for each project and that receipts be issued in numerical sequence.

Expenditures - General: It was noted that several vouchers did not clearly indicate the nature of services rendered or the materials purchased. It is suggested that all vouchers should state the exact nature of the expenditures.

Rentals - Project 200-1: Attention is directed to the fact that the State Housing Board regulations expressly stipulate that each Housing Authority verify the income of the respective tenants at least annually so that rentals may be maintained in accordance with tenants' incomes. No indication, however, of such verification was presented.

It was also noted that reductions in tenants' rents had been made in twelve instances during the audit period. In this connection no substantiating detail was produced of the computations made in establishing the new rentals. The management program issued by the State Housing Board specifies the procedure and suggests the formulae to be used in computing all rents.

It is understood that a new rent roll will be put into effect on June 1, 1953, and it is suggested that this Authority make a complete survey of this entire rent matter.

Outstanding Checks - Project 200-1: It was noted that several checks totaling in the aggregate \$245.75 have been prepared but have been held in the office for more than six months. It is understood that this situation developed because of unsatisfactory performances by the several vendors concerned. It is, therefore, recommended that these checks be voided and new checks issued when it is finally determined that they should be paid.

Oil Burner Service - General: It was noted that there appears to be no contract for the maintenance of the heating units. In this connection attention is directed to the fact that several Housing Authorities have obtained better service and lower rates by entering into such contracts with reputable firms, and it is suggested that the Authority explore the possibility of making such a step.

Visit to Project 200-1: This project was visited and it would appear that several of the buildings seem to require a coat of paint.

Construction - Project 200-1: It was noted that the Authority has directed its architect to proceed against the bonding company because flaws have become evident in this contract, principally in grading and landscaping. The contractor has been completely paid for his services in connection with this particular contract.

Contract Retentions - Project 200-1: Contract retentions in the amount of \$500.00 have been withheld for a long period from the general contractor. When settlement was made with the general contractor it was agreed to deduct \$176.00 from this amount for items which had been paid by the Authority for the general contractor, and a final payment of \$324.00 was made to the general contractor. This amount, however, was charged to Accounts Payable - Development rather than to Contract Retentions Account. It is, therefore, suggested that the necessary adjusting entries be made forthwith.

WEBSTER HOUSING AUTHORITY

REPORT NO. 53-H-86

Commonwealth Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the development costs of the project. This contribution for the second year under Permanent Financing was \$5,735.81, computed as follows:

| | |
|-------------------------------|-------------------|
| 2 1/2% of Development Cost | \$7,850 00 |
| Less: | |
| Transfer to Reduction Reserve | 2,114 19 |
| Contribution | <u>\$5,735 81</u> |

This contribution was received by the fiscal agent, The Second National Bank of Boston, on or about June 9, 1953.

EASTHAMPTON HOUSING AUTHORITY

REPORT NO. 53-H-87

Computation of Tenants' Rents: From the information on file in the office of this Authority, it appears that rents now being charged have been incorrectly computed. This matter was discussed with the Chairman of the Authority who indicated that because of the seasonal type of work available in this particular area it is difficult to compute rental charges on the basis of verification of only past wages. At the present time adjustments are made when the respective tenants report the changes in income as they develop. Because of these conditions considerable clerical detail is necessary on the

part of the Authority's personnel. It is suggested that consideration be given to the establishment of a flat rental which will probably insure the financial stability of this project.

Deposit of Cash: It was noted that the recorded cash receipts do not agree with the cash deposits as appearing on the bank statements. This condition was occasioned by cash receipts being recorded on the cash book although they were not deposited at the end of each month. It is advised that all cash collections be deposited in the month received.

Fiscal Year Operations: This Authority, during its first fiscal year under Permanent Financing, July 1, 1951 to June 30, 1952, showed an operating deficit of \$6,691.51 before the subsidy contribution by the Commonwealth. This contribution by the Commonwealth in the amount of \$8,500.00 created a surplus of \$1,808.49 which was applied to reduce the contribution by the Commonwealth in the subsequent fiscal year.

Bank Balance: The balance on deposit in the Authority's checking account is not shown in the check book. It is recommended that a check register be installed for the checking account and that it be properly maintained.

Federal Income Tax: It was noted that the Authority has not been withholding Federal Income Tax from the salary of its Executive Director. Arrangements in this respect should be completed at once.

Accounts Receivable - Tenants: It was noted that the Tenants' Accounts Receivable ledger included two accounts which have been outstanding for more than one year. These accounts which total \$206.30 have been turned over to the Authority's counsel for collection. It was further noted that these items are owed by individuals who are no longer residents of the project.

NORWOOD HOUSING AUTHORITY

REPORT NO. 53-H-88

Preparation of Rent Receipts: It was noted that rent receipts are being prepared in anticipation of actual collections. This procedure has created several differences between the rent receipts issued and the actual cash collected. Because of this arrangement, it is practically impossible to account for the consecutive sequence of the pre-numbered rent receipts. In instances where rents are delinquent, several rent receipt numbers were not accounted for until several months after the receipts had been prepared.

It is, therefore, recommended that rent receipts be written only at the time of collection.

Rental Changes: It was noted that changes in rentals were made without the necessary detailed information being recorded in the respective tenants' files. When rentals are changed, there should be available adequate explanations of reasons, etc. It is, therefore, recommended that greater care be exercised in this respect.

Architect's Fee: The previous audit report stated that the architect had apparently been paid the amount of \$3,200.78 in excess of his approved fee as computed by the State Housing Board:

| | |
|-------------------------------------|-------------|
| Fee computed by State Housing Board | \$23,601 82 |
| Amount paid by Authority | 26,802 60 |
| Fee computed by architect | 31,256 56 |

In addition to this overpayment, an account payable of \$5,705.56 for architect's fees was set up on the records when this project went into Permanent Financing. This account is still open and the related cash is still available.

It is understood that this matter has been turned over to the Attorney General for his opinion.

NORTH ANDOVER HOUSING AUTHORITY

REPORT NO. 53-H-89

Permanent Financing: It was noted that the surplus from the first fiscal year's operations in the amount of \$3,645.13 and the balance of the working capital totaling

\$2,866.24 were transferred to the Operating Reserve account in accordance with instructions from the State Housing Board. As a result the cost of corrective drainage work together with necessary Architect's fees aggregating \$7,912.19 was paid from funds provided by the Operating Reserve account.

It was further noted that the surplus from the second fiscal year's operations in the amount of \$2,730.42 was also transferred to the Operating Reserve account in accordance with instructions from the State Housing Board. It would seem that this might have been used to reduce the Commonwealth's subsidy in a subsequent year rather than be transferred to this reserve which already had a balance in an amount sufficient to satisfy requirements under the Management Program.

Attention is directed to the fact that the Fiscal Agent for the Housing Authority received the maximum subsidy of \$5,850.00 based on 2 1/2% of the total development costs on February 20, 1953 for the fiscal year ended September 30, 1953.

FALMOUTH HOUSING AUTHORITY

REPORT NO. 53-H-90

Hot Water Heater Units: It was noted that this Authority had expended approximately \$7,300.00 to replace the hot water heaters in 46 of the units. It is understood that these replacements were necessary because the original heating units were not suitable for the water supplied by the town, as this water caused the heating units to deteriorate.

Budget Overruns: A comparison of the operating budget with the actual operations for the period from January 1, 1953 to March 31, 1953 indicated that the actual expenses had exceeded the budget in several major categories. In this connection it was noted that these items were not approved by the State Housing Board.

Attention is directed to the fact that before making an expenditure which might result in an overrun of one of the major accounts, approval from the State Housing Board is required.

Sewerage Filter Bed: The previous audit report commented that this Authority had brought a legal action to compel the original contractor and his bonding company for indemnification because of failure to comply with the terms of the filter bed contract in accordance with its plans and specifications. As of the date of audit this matter was still pending.

In this connection it was also noted that the sewerage modification work had been completed by an independent contractor to the satisfaction of the Authority and that final payment had been made.

MARLBOROUGH HOUSING AUTHORITY

REPORT NO. 53-H-91

Tenants' Accounts Receivable: The Tenants' Accounts Receivable in the general ledger control account indicated a balance of \$1,120.75 as of April 30, 1953. The actual balance, however, as established from the tenants' ledger as of that date was \$101.75. It was learned that the variance between the total of the subsidiary accounts and the controlling account represents an accumulation of vacancy losses over the past several years. It is, therefore, suggested that the Tenants' Accounts Receivable account be adjusted through the "Reserve for Accounts Receivable" account so that it will reflect the true balance.

WALTHAM HOUSING AUTHORITY

REPORT NO. 53-H-93

Project 200-1 - 1952 Operations: For the fiscal year ended December 31, 1952, this project operated at a loss of \$26,840.62 before applying the Commonwealth Contribution of \$30,555.00 and the \$5,195.00 which was reserved from the prior year's operations for the purpose of reducing the annual subsidy from the Commonwealth. The State Housing Board has instructed the Authority that the project surplus of \$8,909.38 resulting from this application will be used to reduce the subsidy for the fiscal year ending December 31, 1953.

Project 200-2 - 1952 Operations: For the fiscal year ended December 31, 1952, this project operated at a loss of \$28,727.47 before applying the Commonwealth Contribution of \$29,675.00. The State Housing Board has instructed the Authority that the project surplus of \$947.53 resulting from the receipt of the subsidy will be used to reduce the Commonwealth Contribution for the fiscal year ended December 31, 1953.

Demolition of Temporary Units: It was understood that various inspections of these units indicated that certain of the buildings were structurally unsound for occupancy, and it was also recommended that they be demolished or shored up. These inspections also indicated that the other buildings showed a definite trend toward deformation and settlement.

Beginning in June 1952, the Authority began demolishing the temporary units as they became vacant, with the result that of the 96 original units there were only 60 still standing as of the date of audit. The Authority has since voted to serve sixty-day eviction notices on the 49 tenants still residing in 60 units in order that the demolition might be completed.

It is expected that these tenants will be housed in either the 32 Chapter 200 units now under construction or the two Chapter 200 projects now occupied, if they are eligible.

Temporary Construction Projects - Collection Losses: It was noted that the Authority had voted to charge off as uncollectible the sum of \$218.40 which was due from four former tenants. In this connection it was noted that the Authority had not sought the approval of the State Housing Board before making these write-offs.

Temporary Construction Projects - Transfer of 1952 Surplus: The surplus from operations for the year ended December 31, 1952 amounted to \$11,138.19. This amount was paid to the City of Waltham in March 1953.

General - Salary Increases: The minutes of the Authority's meetings failed to include any official authorization for recent minor pay increases granted to two employees. It is recommended that all salary changes be recorded in the minutes of these meetings.

General - Joint Expenses: At the present time, the joint expenses of all the projects are paid from the funds of the Temporary Construction Projects with reimbursements from the various projects being made monthly. Since it is understood that the remaining temporary units will all be demolished in the near future, it is suggested that a Revolving Fund be established for this purpose.

AUDIT OF METROPOLITAN TRANSIT AUTHORITY AND RELATED AGENCIES

Audit of Metropolitan Transit Authority: Chapter 675 of the Acts of 1949 provides as follows:

"Chapter 544 of the acts of 1947 is hereby amended by striking out section 12 and inserting in place thereof the following: SECTION 12. The trustees shall determine the character and extent of the services and facilities to be furnished, and in these respects their authority shall be exclusive and shall not be subject to the approval, control or direction of any state, municipal or other department, board or commission. Except as herein otherwise provided, the department shall have the same general supervision and regulation of, and jurisdiction and control over, the services and facilities of the authority as it has over street railway companies. The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits. The state auditor may employ such auditors, accountants, and other assistants as he deems necessary for carrying out his duties under this section, and chapter thirty-one of the General Laws and the rules made thereunder shall not apply to such employees."

A complete report of an audit of the accounts of the Metropolitan Transit Authority for the calendar year ending December 31, 1952 was issued on June 26, 1953. In order that our audit might be comprehensive and complete, separate examinations of the accounts of the Boston Metropolitan District and the Transit Mutual Insurance Company were also completed and reports issued.

Legislative Recommendations: We have come to the conclusion that there can be no improvement in Railway finances or abatement of the continual and controversial discussion of MTA deficits until the cities and towns of the District have some measure of control over the finances of the Railway. All but a minor fraction of the income of the Railway comes from these cities and towns through fares and deficits, and particularly in the matter of deficits, the present arrangement gives a power to the Authority which violates a basic precept of our form of government -- the power to tax without representation. We strongly urge abolition of the present Board of Trustees and the creation of a Metropolitan Finance Council composed of a representative of each city and town of the Railway District. This Council would not operate the Metropolitan Transit Authority, but would have the same relation to the Railway that the Ways and Means Committee of the General Court has to the average State department. Once a year, probably in December, the Railway would submit to the Metropolitan Finance Council their budget for the next calendar year, together with an estimate of income. The Council would meet with MTA officials to discuss this budget, and the power of the Council to increase, reduce or delete any items in this budget would be final. Should unforeseen contingencies later arise making changes in the original budget imperative, the Metropolitan Finance Council would meet to approve such alterations. Adoption of this suggestion would bring the officials of the cities and towns concerned a closer understanding of Railway finances, and, in addition, would give to local authorities an early estimate of anticipated deficits, which would provide to them adequate time in which to make necessary financial preparations to meet their share of that deficit.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Governor's Councilors, and the Senators, Representatives and officials of the cities and towns of the Boston Metropolitan District and the members of the Board of Trustees and officials.

SCHEDULE OF TRANSIT AUDITS

FISCAL YEAR 1952-1953

| Agency | From | To | Page No. |
|----------------------------------|--------------|---------------|-------------|
| Metropolitan Transit Authority | Jan. 1, 1952 | Dec. 31, 1952 | 289 - 305 |
| Special Balance Sheet Audit | | Mar. 31, 1953 | - |
| Boston Metropolitan District | Jan. 1, 1952 | Dec. 31, 1952 | 305 - 306 |
| Transit Mutual Insurance Company | Jan. 1, 1952 | Dec. 31, 1952 | 306 - 307 |

The following comments, exceptions and recommendations were included in the reports issued in connection with this examination:

1. **AUDIT:** This audit was conducted under the provisions of Chapter 675 of the Acts of 1949, which amended Section 12 of Chapter 544 of the Acts of 1947 and provides for an annual audit of the accounts of the Metropolitan Transit Authority by the Department of the State Auditor.

This report covers the calendar year 1952, and, in addition, separate reports covering the same period have been issued as the result of separate examinations of the Boston Metropolitan District and the Transit Mutual Insurance Company.

At the request of the new Trustees of the Railway, a balance sheet audit as of March 31, 1953 has also been completed and a separate report of that examination has been issued to the Trustees.

2. **TRUSTEES' MEETINGS - 1952:** An examination of the minutes of the Trustees held during the 1952 year disclosed once again that the Board appeared to be in complete accord on each and every matter voted upon. Of approximately 340 votes recorded in the minutes, every proposal was adopted unanimously by the Trustees; not a single dissenting vote was noted throughout the entire year.

Although the minutes do not disclose the source of most of the proposals upon which the Trustees voted, it can be properly assumed that for the most part they were initiated by the officers.

3. **REORGANIZATION:** On March 19, 1953 the General Court through Chapter 197 of the Acts of 1953 approved legislation which provided for a reorganization of the Board of Trustees of the Metropolitan Transit Authority and eliminated the previous five-man board and substituted in its place a board of three members; one experienced in transportation, another in labor relations and the third in administrative and financial matters. The Act also added limited powers to the Advisory Board, however, this section of the Act is discussed more fully later in this report.

Audits conducted by this Department since October 1951 have been considerably hampered and delayed by an order adopted at that time by the prior Trustees which placed certain restrictions upon their employees' relations with representatives of the Department of the State Auditor. Their order to the employees reads in part as follows:

"... the said Treasurer and Comptroller are hereby further instructed to inform their respective staffs that in the future they are to abstain from attempting to answer any inquiry from the Office of the State Auditor relating to policies of operation or management of the Metropolitan Transit Authority system; . . ."

Following the issuance of this order, some employees, who had previously been co-operative, were unwilling to answer any questions or produce any records requested by this Department, and as a result practically every request made by the representatives of this Office was cleared through the General Manager or the Board of Trustees with a consequent delay sometimes of several weeks duration.

On April 2, 1953, soon after taking office, the new Trustees rescinded this order of their predecessors and issued the following order:

"... that the Treasurer-Comptroller be instructed to continue to accord to the Office of State Auditor every courtesy in furnishing all necessary information required in connection with the making of the annual audit of the books of the Metropolitan Transit Authority."

This latter order of the new Trustees considerably expedited the progress of this audit as is evidenced by the fact that this report is being issued two months earlier than the report of last year.

4. **OPERATIONS - 1952:** For the calendar year 1952, the Authority reported a net assessable deficit of \$7,829,044.64, and this represented a substantial increase over the deficit reported for the year 1951 which amounted to \$5,315,084.20. The actual deficit for 1952 amounted to \$8,877,216.42, but this amount was reduced by a profit and loss credit of \$1,048,171.78 which resulted from the application of a part of a reserve that had previously been maintained by the Railway as a provision for accrued federal taxes. The amount thus reported by the Railway also fails to include a total of \$722,592.60 which was assessed directly upon the cities and towns in retirement of the subway debt. The actual deficit from Metropolitan Transit Authority operations for the year 1952, therefore, amounted to \$9,599,809.02.

Revenue from transportation dropped from \$39,448,207.01 in 1951 to \$37,858,580.41 in 1952. Total revenue from all sources dropped from \$40,715,551.12 to \$39,042,962.61, while on the other hand operating expenses rose from \$40,719,979.91 in 1951 to \$41,896,705.63 in 1952 and it is worthy of comment that while operating expenses increased there was a 4% reduction in revenue miles operated in 1952.

It would seem that such a substantial reduction in operations should have produced a decrease in operating costs, and the question might also well be raised as to how much of the drop in income actually resulted from service reductions.

Revenue passengers carried by the Railway in 1952 numbered 277,713,059. Listed below is a study of the revenue passengers carried from the year 1919 to the year 1952:

| Year | Revenue Passengers | Year | Revenue Passengers |
|------|--------------------|------|--------------------|
| 1919 | 324,758,685 | 1935 | 280,402,526 |
| 1920 | 335,526,561 | 1936 | 296,180,866 |
| 1921 | 337,252,080 | 1937 | 296,397,493 |
| 1922 | 356,593,942 | 1938 | 291,175,017 |
| 1923 | 382,149,697 | 1939 | 295,123,077 |
| 1924 | 382,888,848 | 1940 | 294,450,628 |
| 1925 | 365,036,286 | 1941 | 306,815,525 |
| 1926 | 371,218,401 | 1942 | 370,265,241 |
| 1927 | 366,938,908 | 1943 | 418,203,633 |
| 1928 | 362,005,033 | 1944 | 417,069,378 |
| 1929 | 354,214,990 | 1945 | 420,096,165 |
| 1930 | 342,694,905 | 1946 | 433,094,952 |
| 1931 | 324,788,577 | 1947 | 388,573,222 |
| 1932 | 291,753,825 | 1948 | 381,023,889 |
| 1933 | 267,845,429 | 1949 | A |
| 1934 | 277,034,175 | 1950 | 307,732,315# |
| | | 1951 | 288,972,823 |
| | | 1952 | 277,713,059 |

A - Not available due to change in fare structure, effective August 6, 1949.

- January 1 - 27, 1950 estimated.

It will be noted from the above that the travel for the year 1952 is the lowest since the inception of public control with the exception of the two depression years of 1933 and 1934.

There is no question but that the greatly amplified use of automobiles is the major factor in this decline, but certainly the fact that the road in 1948 operated 54,704,850 revenue miles as compared with 46,566,413 revenue miles in 1952 has some significance in considering the substantial decrease in passengers carried. The previous Trustees apparently considered that the only possible source of economies lay in arbitrary reductions of operating miles, and it is the opinion of this Department that the present Trustees should re-examine reductions instituted by their predecessors to determine whether or not the decision to make certain of these reductions was economically sound.

This Department does not believe that the Trustees in the past have recognized the difference between operation of a public transportation system and operation of the ordinary departments of government, and that no concerted attempt has ever been made to point out the advantages and economy of mass transportation. This Department believes that the facts should be brought to the attention of the public; that the use of private automobiles for daily transportation into Boston not only is more expensive than the use of MTA facilities, but that the motorist in addition to his own costs is also contributing to the deficit of the Railway which he must also pay.

5. PRIOR AUDIT REPORTS: This Department was advised that on December 23, 1952 the former Trustees of the Metropolitan Transit Authority had prepared a sizable booklet, appropriately bound in black, entitled "Answer of the Trustees of the MTA to Allegations of the State Auditor", and that a copy of the booklet had been presented to each member of the Advisory Board. Immediately upon receipt of this information, on January 16, 1953 this Department wrote to the then Chairman of the Board of Trustees of the Metropolitan Transit Authority and requested that this Department be furnished with a copy of this booklet. This request was ignored, however, a copy was obtained from other sources.

The contents of this Black Book were largely repetitious and evasive. It contained no new information but sought to answer only those allegations made by the Department of the State Auditor which suited the immediate convenience of the then Trustees.

In compiling this audit report repeated reference has been made to the Black Book in order that the consistent opinion of this Department may be clearly redefined.

6. I. C. C. SYSTEM OF ACCOUNTS: For many years in almost every discussion of certain of their accounting practices, the Boston Elevated Railway and its successor, the Metropolitan Transit Authority, have used as a subterfuge the excuse that even though their methods might in some instances be detrimental to the financial interests of the taxpayers, the Trustees were compelled to follow such methods since they were required by I. C. C. regulations.

In the Black Book, the Trustees referred to Department of Public Utilities Order No. 4240 dated June 7, 1946, which was issued at that time to all street railways within the Commonwealth of Massachusetts and required the use of the I. C. C. system of uniform accounts. Attention is directed to the fact that at the time of issue of this order, the Railway was then a private corporation known as the Boston Elevated Railway, and while there could have been some substance to the claim of the Elevated Railway that they were bound by this order, such an order does not apply to the Metropolitan Transit Authority, a governmental agency whose operations lie only within the boundaries of Massachusetts. The Trustees themselves give the best evidence that they are not bound by this order. On December 9, 1947, after the creation of the Metropolitan Transit Authority, the Trustees voted that D. P. U. Order No. 4240 be adopted by the MTA "... where such classification reasonably applies". Therefore, the very Trustees who argued that they were bound by these regulations, actually adopted them originally with limitations which they themselves imposed. If they had the right to make such limitations, and we believe that they did, then they had the further right to ignore such regulations in any situations where their application would be detrimental to the financial interests of the taxpayers. It is remarkable to note that in some instances, and to the detriment of the taxpayer, the Trustees did not follow the I. C. C. System of Accounts.

Included in the Balance Sheet under Other Assets is an item termed "Claim for Refund of Prior Years' Federal Income Tax". The amount carried by the Metropolitan Transit Authority for this item is \$591,972.56, which is a result of two applications for refunds under the carry-back loss provisions of the Internal Revenue Code. The first application for refund was submitted on or about April 5, 1946 for \$260,579.52 and the second application was submitted on or about April 21, 1947 for \$331,393.04.

Under the provisions of Section 3771 of the Internal Revenue Code, interest accumulates at the rate of 6% per annum from the date of the application of the refund. Therefore, interest has accumulated in the sum of \$218,628.61 from the time of making the applications to December 31, 1952. Interest accumulated as follows:

| | |
|--------------------------------|---------------------|
| Apr. 5, 1946 to Dec. 31, 1952 | |
| 6% of \$260,579.52 | \$105,374 06 |
| Apr. 21, 1947 to Dec. 31, 1952 | |
| 6% of \$331,393.04 | 113,254 55 |
| Accumulated Interest | <u>\$218,628 61</u> |

For many years the Metropolitan Transit Authority has argued assiduously that it maintains its books according to the I. C. C. System of Accounts. Account 412 "Interest, Dividends and Rents Receivable" as described in the Uniform System of Accounts, which is published by the Interstate Commerce Commission, states,

"... this account shall include the amount of interest accrued to the date of the balance sheet on funded and unfunded securities owned, loans, open accounts, mortgages, and deposits; dividends declared on stock owned and dividends accrued on stocks when contracts require that the dividends be paid at stated times; and rents accrued under leases."

It was noted that the MTA has not reflected in its Balance Sheets and in Statements of Income and Cost of Service any provision for the interest which has accumulated since April 5, 1946 on said refund applications. Since 1946 this deliberate omission has cost the fourteen cities and towns of the district the sum of \$218,628.61.

It would appear that the MTA's interpretation of the I. C. C. Accounting System and the accrued system of accounting is followed only when expense items may be reflected on the books of account. By recording accrued expense items, the Cost of Service increases, thereby increasing the tax burden levied upon the fourteen cities and towns. The MTA chooses to ignore accrued income items which diminish the Cost of Service and reduce the burden of the fourteen cities and towns.

There are no one-way streets in accounting; if a system of accounting is adopted by an agency it must adhere to that system in its entirety. This Department has often criticized the MTA's use of the I. C. C. System of Accounting. However, this Department recognizes the fact that whatever system is utilized its principles must be applied consistently. The MTA cannot be selective in its accounting procedures.

7. CASH POSITION: One of the great weaknesses in the financial condition of the Railway lies in its cash position. Over the past few years, expenditures have been authorized and made by the previous Trustees without regard for the actual cash position of the Railway. This has necessitated temporary borrowings in every year and under normal conservative financial policies it is felt that such borrowings can be completely eliminated and the annual deficit, when paid, should fully re-establish the cash position of the Railway to a point where operations can be maintained without temporary borrowings throughout the remainder of every calendar year.

In the summer of 1951, this Department noted that the Trustees in the first seven months of that year had authorized capital expenditures totaling \$4,019,614.97. In view of the fact that during the same period only \$700,000.00 had been reserved for such purposes, this Department wrote to the then Chairman of the Board of Trustees and called his attention to the fact that such expenditures would wreck the cash position of the road and require temporary borrowing. Our advice was ignored. The cash position was destroyed and the Trustees were forced to borrow \$3,000,000.00 on October 1, 1951 in order to maintain actual operations of the Railway. In defense the Trustees in their Black Book included a schedule, designed to mislead, for a cursory examination of their schedule would seem to indicate that on December 31, 1950 the Railway had cash totaling \$5,618,340.90 on hand and that on December 31, 1951, a year later, there still remained \$3,843,419.54 in cash which would seem to indicate a cash impairment of less than \$1,800,000.00. Further examination of this schedule, however, will disclose that in addition to the cash which they reported at the beginning of 1951 they had \$2,000,000.00 in United States Treasury Certificates, therefore, their cash at the beginning of the year amounted to \$7,618,340.90.

Examination of the other side of the schedule discloses that on the liability side on December 31, 1951 there was a note payable to the Boston Metropolitan District of \$3,000,000.00 which would reduce their available cash to only \$843,419.54. Their cash impairment, therefore, actually amounted to \$6,775,000.00 during the year 1951.

Also in the Black Book, the Trustees brought forth another schedule by which they seem to have wanted to prove that their capital expenditures since 1947 have exceeded the amount reserved for such purposes. The only comment that we have in regard to this schedule is that it was deliberately falsified since they included in their total capital expenditures an amount of \$1,388,285.63 in items which they themselves told the Department of Public Utilities recently were non-depreciable items and asked permission of the D. P. U. to borrow funds to replenish the cash thus expended.

It is worthy of comment the D. P. U. agreed with them and gave permission for the borrowing. It is also worthy of comment that the Trustees failed to include in this schedule an amount of \$229,000.00 which was paid to the Eastern Massachusetts Railway for the acquisition of the West Roxbury lines.

These are characteristic tactics of the former Trustees, and tactics which they used in attempting to confuse every proper charge that was made against them. Their statements in this section of the Black Book in addition to being false had no relation whatsoever to our original comment, which was that their expenditures were excessive in consideration of the amount that had been reserved. It is purely a question of mathematics -- if the expenditures could have been justified and were necessary, then the Trustees should have increased the amount reserved annually for such purposes, and on the other hand if the expenditures were not justified they certainly should have been eliminated. The Authority should spend for capital items only the amount that is actually reserved for such purposes. It is fairly obvious that many of these capital expenditures could not have been justified and the former Trustees in the continuance of such expenditures found it easier to expend funds reserved for other purposes than to attempt to justify a larger charge to the cost of service. Actually the funds made available through continued depreciation of Elevated structures and by the annual charge for injury and

damages was used for such expenditures.

The former Trustees can also be accused of deliberate subterfuge in their reply to the Mayors with regard to our charges of extravagant spending for capital items. In the Black Book they have stated that \$2,900,000.00 of the expenditures made by them during the first seven months of 1951 came as a result of a legislative order to extend the East Boston service to Orient Heights. This is not the truth. Every dollar expended as a result of orders of the Legislature was borrowed, and all of their expenditures from MTA cash which they attributed to this extension were additional work that the Legislature did not order, and were made on the sole initiative of the Trustees.

The unrestricted cash held by the Metropolitan Transit Authority on December 31, 1951 amounted to \$3,555,539.93, and during the year 1952 in addition to income from operations the cash was further enhanced by receipt of \$5,315,084.20 received in payment of the 1951 deficit and by temporary borrowing of \$9,000,000.00, of which \$2,000,000.00 was repaid in 1952. On December 31, 1952, the Railway had on hand \$2,434,372.30, and in addition, had on hand United States Treasury Bills valued at \$1,997,488.89. During the year 1952, on three occasions the Authority borrowed on short-term notes from the Boston Metropolitan District. Two million dollars was borrowed on February 29, 1952, which was repaid on April 10, 1952, and again on July 10, 1952 there was further borrowing of three million dollars. On November 30, 1952 an additional four million dollars was obtained through the BMD.

It is doubtful that any sensible planning on the part of the Trustees preceded the borrowing of these enormous sums. It is the opinion of this Department that such borrowing should be held to a minimum, while as a matter of actual record, the Trustees immediately invested one and one half million dollars of the four million dollars borrowed in United States Treasury bills, and on December 31, 1952 their investment in government notes amounted to \$1,997,488.89. It is fairly obvious that the Trustees over borrowed, because it is inconceivable that they could have borrowed money in order to invest in government securities.

In the year 1951 as a direct result of poor planning by the Trustees, the Authority actually lost \$10,421.81 in their various transactions in United States government notes. It is hoped that the new Trustees will limit such borrowing to the amounts necessary to meet only the operating needs of the Railway.

It would appear that if the financial records of the Railway are properly maintained and if proper planning accompanies the operation of the Railway, once the cash position of the Railway is restored the new Trustees should be able to operate without temporary borrowings. The cash impairment of the Railway as it exists today cannot be immediately restored, and the damage to the cash position resulting from the reckless expenditures of the previous Trustees during the past four years will probably require several years of honest accounting and economical administration to offset.

8. RESERVE FOR INJURIES AND DAMAGES: A large section of the Black Book was devoted to a discussion of this subject; however, the reply made by the Trustees had no relation whatsoever to the comments which this Department had made about this reserve.

They devoted considerable effort in the Black Book in an attempt to prove that the amount of their reserve actually equalled the amount of their potential liabilities. That is impossible to prove and it is equally impossible to disprove, and we have never attempted to take either side in such an issue. The facts are that this reserve grew from \$885,800.68 on January 1, 1946 to \$1,880,202.51 on December 31, 1952 which would certainly seem to indicate that charges to the cost of service for such purposes had been excessive since this reserve increased almost a million dollars in a period of seven years.

We do not believe that such a reserve is necessary for a governmental agency, and have called attention to the fact that no other governmental agency maintains such a reserve. We have further contended that although the taxpayers have been charged annually as much as \$1,575,000.00 to provide this reserve, the entire reserve now exists only on paper because the Trustees have expended the funds thus reserved for other purposes. We stated in our report that it was obvious that the Trustees could not be relied upon to maintain such a reserve and we recommended that it be eliminated and the Railway placed on a cash basis.

It is interesting to note how often a study of all the activities of the Railway gives an opportunity -- to use the words of the Trustees themselves -- to prove points that have been raised against them. In the case of this reserve, the then Trustees wrote to the Mayors of the Metropolitan District in the fall of 1951 immediately after our recommendation was made, and they said:

"If the present reserve for injury and damages was transferred to surplus account, as suggested, it would reduce the cost of service deficit in the year transferred, but would also reduce the Authority's working capital in the same amount which would necessitate additional borrowings by the Authority."

In other words, the Trustees admit that the cash thus reserved had been dissipated. There exists no stronger argument in favor of our recommendation that the reserve be eliminated. The Trustees argued in the Black Book that I. C. C. regulations required this reserve and here again we have a conflict between what I. C. C. regulations require and what is best for the taxpayers. The choice of the Trustees should have been to select the method of most benefit to the taxpayers.

On December 31, 1952, the balance in this account totaled \$1,880,202.51, increasing nearly one million dollars since 1946:

| | Balance Jan. 1, 1946 | Additions to Reserve | Charge to Reserve | Balance Dec. 31, 1952 |
|------|-------------------------|-------------------------|-----------------------|--------------------------|
| 1946 | \$885,800 68 | \$1,355,000 00 | \$1,171,472 04 | |
| 1947 | | 1,316,002 74 | 1,101,226 90 | |
| 1948 | | 1,300,000 00 | 1,159,866 06 | |
| 1949 | | 1,350,000 00 | 1,167,706 20 | |
| 1950 | | 1,400,000 00 | 1,228,347 21 | |
| 1951 | | 1,575,000 00 | 1,420,402 29 | |
| 1952 | | 1,425,000 00 | 1,477,580 21 | |
| | <u>\$885,800 68</u> | <u>\$9,721,002 74</u> | <u>\$8,726,600 91</u> | <u>\$1,880,202 51</u> |

The cost of maintaining the department of the Authority which is charged with the responsibility of handling injury and damages claims in 1952 amounted to \$365,927.87 and in addition \$26,616.71 was spent for attorneys for services rendered to the Legal and Claim Department during the same year.

In view of the extravagant costs of maintaining this phase of the Authority's operations, we recommend to the new Trustees that a study be made to determine whether or not the entire department should be abolished and the reserve liquidated and the processing of all injury and damage claims be accomplished through a private insurance company. In the event that the new Trustees do not find this recommendation feasible, we reiterate our previous recommendations:

1. that the reserve be abolished and that all charges for injury and damages be placed on a cash basis, or
2. continue present procedures but fund the reserve so that the money cannot be used for any other purpose.

The first recommendation here is not unreasonable because the Authority has a contract with Lloyds of London which protects the Authority from excessive claims from one accident. In effect, the policy with Lloyds of London covers the Authority where one claim or claims from one accident amounts to more than \$50,000.00 the insurer will pay any costs over \$50,000.00.

9. **FEDERAL TAXES:** In the year ended December 31, 1945, there appeared on the MTA Balance Sheet a reserve labeled "Provision for Federal Income Taxes". This reserve at that time amounted to \$1,812,377.44 and the then Trustees said that the reserve was to cover a proposed assessment of additional income taxes for the years 1939 through 1943.

With reference to this reserve, the recent Trustees of the Railway said on August 29, 1950 to the Finance Committee of the Executive Council:

"If the decision of the tax litigation now in process were to be entirely favorable to the Authority, there no longer would be any necessity for maintaining the reserve of \$1,812,377.44 against this tax liability. Therefore, the amount of that reserve would be credited to profit and loss in the year of the decision thus reducing the cost of service in that year by that amount."

In the spring of 1952, the Railway won this case, except for \$14,205.66 paid for taxes for the year 1940, and the balance left in the reserve amounted to \$1,798,171.78. In direct contradiction of the statement which they made to the Executive Council, they reduced the 1952 deficit by only \$1,048,171.78, and retained in reserve \$750,000.00 for tax liabilities for the year 1947. From actual record, we can state that the same Trustees knew of this potential 1947 liability on October 6, 1949, long before they made the promise cited above to the Executive Council that if they won the original case, the whole amount of the reserve would be applied against the deficit. The Trustees were silent on this matter in the Black Book, except that they supplied the Mayors with a copy of a letter from the Treasury Department indicating that a potential liability actually existed, but it is worthy of comment that although the letter from the Treasury Department included a note indicating that the Treasury Department had also forwarded the MTA a statement indicating just what this tax deficiency represented, the Trustees did not include a copy of this schedule in their Black Book, and they further refused to supply this Department with a copy of that same schedule.

In November of 1952 the previous Trustees first announced their decision to retain this \$750,000.00 reserve against this tax liability. At the time, this Department protested to the MTA Advisory Board, to the MTA Trustees and later to the present Governor that this reserve was needless and that the full amount of the original reserve should be applied against the 1952 deficit. The advice of this Department was ignored by those who had the authority to reverse this action of the Trustees.

On May 14, 1953, the Tax Court of the United States ruled that the liability of the Metropolitan Transit Authority in this case amounted to only \$133,781.61, which amount with interest to date of decision amounted to \$175,407.85. As the result of this court decision, there immediately becomes available to the Trustees a sum of \$574,592.15 which must be applied against the deficit for the year 1953.

This decision of the court should also result in releasing immediately to the Authority \$591,972.56 due to the Railway as a result of a claim for refund of prior years' federal income taxes. Payment of this amount, however, will have no effect whatsoever upon the 1953 deficit, but accrued interest of more than \$230,000.00 should be applied against the current deficit for the current year.

10. DEPRECIATION: In the Black Book, the Trustees discussed depreciation in general and depreciation of elevated structures in particular. In an attempt to answer fundamental objections to their practices, here again the Trustees are refuted by their own words, for in the Black Book in explaining depreciation to the Mayors, they stated:

"The controlling factors in determining depreciable property are that the property be depreciable and that it be in use."

This is somewhat different from the written statement made by the same Trustees to the Mayor of Boston in the fall of 1951 when they said:

"The purpose of a depreciation charge is to provide funds out of income to replace depreciable property when it wears out or becomes obsolete."

This latter explanation agrees exactly with the expressed opinion of this Department which has been clearly stated in our audit reports for the last five years.

In the particular case of the elevated structures, the Trustees knew full well that when these elevated structures are finally replaced that the Railway will not supply the funds needed to replace them. That was clearly indicated by the action of the Legislature several years ago when they ordered these structures torn down and told the Railway to borrow the funds needed for replacement. While it is true that the Legislative order has not been followed because the amounts authorized by the Legislature did not provide sufficient funds to cover the cost of replacement, this much is certain -- the MTA has continued to depreciate these structures and despite this annual charge of \$300,000.00 there is no cash available in the treasury of the Railway to support the paper reserve thus created.

The Trustees attempted in the Black Book to becloud the issue by a lengthy discussion of depreciation with the further comment that the Department of the State Auditor does not understand their depreciation processes. This Department understands their practices even better than the Trustees, for the Trustees attempted to claim in the Black Book that elevated structures were being depreciated at a rate of 1 1/3% per year. This is not true. The depreciation rate used by the Trustees which is applied against all of their depreciable assets is 2%, and the annual charge to the cost of service to

provide such reserves amounts to \$1,200,000.00 a year. The continued depreciation of elevated structures by the Trustees is costing the taxpayers \$300,000.00 a year, and the funds thus extorted from the taxpayers and supposedly reserved for replacements are being expended for purposes which have no relation whatsoever to elevated structures.

In another section of the Black Book, the Trustees cited a comment in our report which charged that they were depreciating again \$8,000,000.00 worth of assets which had previously been fully depreciated. Now we have the statement of the Trustees that the purpose of a reserve for depreciation is to provide funds out of income to replace depreciable property when it wears out or becomes obsolete. In this case, \$8,000,000.00 worth of assets became fully depreciated, which means that they had recovered from the taxpayers \$8,000,000.00 with which to replace these assets, and having thus acquired \$8,000,000.00 spent it for other purposes, they again charged the taxpayers \$160,000.00 a year to provide funds to again replace these same assets. In other words, the taxpayer has been charged \$8,000,000.00 once for depreciation of assets which the taxpayers already owned and now the Trustees by bookkeeping device are in the process of collecting \$8,000,000.00 again from the taxpayers. If the Trustees are allowed to proceed in this manner, the taxpayers will eventually pay \$16,000,000.00 for depreciation of assets which they the taxpayers originally owned.

The entire bookkeeping procedures of the former MTA Trustees was designed to add to the cash of the Railway at the expense of the taxpayers to provide the Trustees with funds which were spent for purposes which had no relation whatsoever to the original purposes for which these funds were provided.

11. FUNDED DEBT: As of December 31, 1952, the principal amount of funded debt of the Metropolitan Transit Authority amounted to \$131,054,372.85, a decrease during the year of \$71,592.60. The deficit reported for the year 1952 by the Railway amounted to \$7,829,044.64, and of this amount \$5,045,729.80 was the cost to the Authority for the interest and retirement of this debt, while an additional cost of \$722,592.60 was assessed directly on the taxpayers in retirement of the subway debt. It is immediately obvious that a major part of the cost to the taxpayers for the operations of the MTA arises from the funded debt. Further expansion of this debt must be regarded with some concern, but apparently, from the policies of the previous Trustees, their only interest was to attempt to foist the cost of the debt directly upon the taxpayers.

For the purposes of illustration, this debt can be divided into three general categories:

(a) Original Debt: On December 31, 1952, this debt had been reduced to \$67,918,371.89, and represented the balance of the debt of the Boston Elevated Railway Corporation existing at the time the road became publicly owned.

A study of the financial operations of the Railway indicated that, at the time, the debt was being retired at an unreasonably rapid rate, since, except for one year under public control, all Elevated deficits could be entirely attributed to the cost of the funded debt. In a report issued in 1947, this Department recommended that retirement of the debt be retarded, and, as a result, Chapter 572 of the Acts of 1949 provided for an orderly, equitable, but lengthy retirement of the debt. This statute requires that the debt be retired at the rate of \$1,000,000.00 per year in payments of semi-annual installments of \$500,000.00 on June 1st and December 1st of each year. Since August 29, 1949, under the provisions of the same Chapter 572, this debt has been reduced \$3,500,000.00, and, in the same period, the MTA has paid interest in the amount of \$5,118,195.75.

The previous Trustees made several efforts to have the cost of this debt directly assessed upon the taxpayers of the District, which would, of course, put the Railway's financial operations in a better light but would produce not one penny of relief for the taxpayers, and certainly if this change were adopted it would encourage the Trustees to seek enlargement of the debt.

(b) Subway Debt: Under the provisions of Chapter 572 of the Acts of 1949, the Metropolitan Transit Authority acquired title from the City of Boston to all subways owned by the Railway. On August 3, 1949, the debt in connection with the acquisition of these subways amounted to \$40,219,445.43. It is worthy of comment that the provisions of Chapter 572 required that the cost of retiring this debt should be assessed directly upon the cities and towns of the District, and, at that time, the annual cost of such retirements amounted to \$536,259.27. This provision of the statute had the effect of lowering the reported deficit of the Authority and has encouraged the previous Trustees to attempt to obtain legislation which would apply the same procedure to all their debts.

A comparison between the status of the Original Debt, which is being paid entirely by the Authority, and the Subway Debt, which is being retired by direct assessment on the taxpayers, is enlightening. The Original Debt, paid by the Railway, had been reduced since 1949 by \$3,500,000.00, while the Subway Debt, which must be retired at the direct expense of the taxpayers, had, under the direction of the previous Trustees, been increased \$13,612,555.53 to \$53,832,000.96, and the annual cost to the taxpayer has consequently been raised from \$536,259.27 to \$722,592.60.

During the period from August 3, 1949, the taxpayers have paid in direct assessment in reduction of this debt a total of \$2,012,444.47, and during the same period the Authority has paid in interest a total of \$5,722,203.27.

(c) Equipment Debt: A large section of the Black Book is devoted to a discussion of the rolling stock owned by the Railway, and the Trustees were so anxious to justify their positions in this regard that they actually used incorrect figures in stating their case. In referring to the number of vehicles which they had on hand at the end of 1951, they deducted from that balance vehicles that were scrapped in the following year. In this same section they also devoted some effort to an attempt to prove that their pay roll was not excessive.

We have contended in our reports that the number of vehicles owned by the Railway was in excess of their actual needs, but our basic criticism was that the Trustees had expended at an extravagant rate \$10,000,000.00 authorized by the Legislature for purchase of rolling stock. They spent the entire \$10,000,000.00 as though it was an actual appropriation for the immediate purchase of new vehicles. This was not the case. The Legislature did not authorize the Trustees to spend \$10,000,000.00 for equipment, but rather, they said the Trustees could borrow up to \$10,000,000.00 and that the \$10,000,000.00 would operate as a revolving fund so that the Trustees whenever vehicles became outmoded or inoperative could use the revolving balance in the fund to replace a particular vehicle or vehicles. This law became effective on August 2, 1947, and from April 15, 1948 to December 31, 1951 the complete \$10,000,000.00 had been borrowed and expended, and in actual fact the Trustees had so lost control over their expenditures they actually exceeded the \$10,000,000.00 authorized by the Legislature and had to spend \$592,000.00 of the cash of the Railway to pay for such excessive purchases. The following schedule gives ample evidence of the correctness of our assertions that the road is over-equipped, for with a drop of nearly 150 million passengers since 1946, equipment has only been reduced by 282 pieces.

| | 1945 | 1946 | 1950 | 1951 | 1952 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Surface Cars | 1,146 | 1,114 | 869 | 790 | 609 |
| Rapid Transit Cars | 482 | 482 | 476 | 503 | 503 |
| Trackless Trolleys | 162 | 162 | 340 | 430 | 440 |
| Buses | 577 | 607 | 608 | 616 | 531 |
| Total Vehicles | <u>2,367</u> | <u>2,365</u> | <u>2,293</u> | <u>2,339</u> | <u>2,083</u> |
| Passengers | | | | | |
| Carried | <u>420,096,165</u> | <u>433,094,952</u> | <u>307,732,315</u> | <u>288,972,823</u> | <u>277,713,059</u> |

While Chapter 544 of the Acts of 1947 provided that all future purchases of revenue equipment would be made from bond issues and limited the amount of such borrowings outstanding at one time to \$10,000,000.00, this limitation was raised by statute in 1952 to \$15,000,000.00.

In the annual report of the Railway dated December 31, 1952, the Trustees have included on the next to last page a schedule listing the rolling stock owned by the Railway on that date. The statement shows a total of 2,083 vehicles owned, while on the last page there has been a chart illustrating the number of vehicles used by the Authority during the various hours of the day and night. According to this chart, the absolute peak needs of the Railway total 1,520 vehicles. It follows, therefore, that at periods of maximum travel the Authority has lying idle 563 vehicles, and yet the Trustees claimed a need for additional \$5,000,000.00 for more equipment, which the Legislature has granted them.

Twenty-two used trackless trolleys were purchased in 1952. The total cost of these trolleys was \$251,732.71, making the cost per trackless trolley approximately \$11,250.00. On order for 1953 delivery are twenty-five General Motor buses and five Mack Diesel buses. The total cost of the thirty buses will be \$545,584.75, making the

cost per bus approximately \$18,185.00. The Authority in 1953 is further contemplating purchasing sixteen more trackless trolleys and twenty more Diesel buses.

12. NEW CONSTRUCTION: On December 31, 1952 the funded debt of the Railway totaled \$131,054,372.85. Interest charges alone in 1952 cost the Authority \$3,454,729.80, while retirements cost \$1,591,000.00, and there was an additional direct assessment upon the cities and towns of the district of \$722,592.60.

The handicaps imposed upon Railway operations in the course of maintaining and retiring this debt cannot be too strongly emphasized. Further expansion of the debt, therefore, should not be encouraged and should be permitted in only such instances where increases to the debt will come from the cost of necessary improvements which will bring additional revenue to the Railway. All such improvements, however, cannot always be predicated solely upon the needs of the Railway itself. Certain improvements which may not add income to the Railway could by their very nature add substantially to the taxable values of a particular city or town concerned, a factor which also must be considered by a publicly-owned Railway.

(a) Washington Street Tunnel Extension: Chapter 649 of the Acts of 1949 authorized the Authority to construct an addition to the Washington Street Tunnel from Haymarket Square to Sullivan Square at a cost not to exceed \$24,000,000.00 and a further addition from Boylston Street to Forest Hills at a cost not to exceed \$31,000,000.00.

In both instances, construction of these tunnels would add substantially to the taxable value of property abutting these elevated structures and therefore would increase income to the City of Boston, and in addition would provide substantial improvement and modernization to the areas of the City that are involved. In neither case, however, would any advantage whatsoever accrue to the Railway, since no additional revenue could be expected and there would be no appreciable savings in operating costs.

Plans to remove these structures are now dormant for after spending approximately \$800,000.00 of the funds authorized by the Legislature, the previous Trustees came to the belated conclusion that these subways could not be constructed for the funds authorized. It is the opinion of this Department that it is unreasonable to the point of impossibility for the Railway to contemplate adding to its debt seventy or eighty million dollars which would be involved in the construction of these subways, but it would seem at this time that the present Trustees should devote some study to the report of a recess commission, issued in 1947, which proposed alternative routes over existing right of ways which would have eliminated the cost of the subway construction and substituted therefore surface rapid transit. For one example, the recess committee recommended that the elevated structure in Charlestown be removed and that the rapid transit system be extended on the surface through the Boston and Maine Railroad right of way through Charlestown. Such a change, if it can be successfully negotiated with the Railroad would certainly cost far less than the proposed subway and accomplish the same purpose, and it is reasonable to assume that rapid transit could also at the same time be extended even beyond Somerville through West Medford and into Malden through use of existing railroad right of ways.

It is recommended to the Trustees that studies be made to determine ways and means of providing rapid transit throughout the present Metropolitan Transit Authority district without the construction of expensive tunnels by the use of existing right of ways which would also eliminate costly individual landtakings to provide such surface rapid transit. There is no doubt but that such extensions throughout the present district would encourage greater use of the Railway's facilities, and, at the same time, eliminate traffic congestion in downtown Boston, and such amplification would further provide extension of the most economical form of public transportation provided only by rapid transit.

(b) Addition to Tremont Street Subway: Under Chapter 622 of the Acts of 1948, the Legislature authorized the expenditure of up to \$11,500,000.00 to make alterations in the Tremont Street subway. This expansion of facilities in that subway was first recommended by the Trustees in their Annual Report for the year ending December 31, 1947, at a time when the Railway was carrying nearly 433 million passengers a year. Certainly under the present passenger load of 277 million passengers per year, the need for extensive alterations has been eliminated. This fact should have been immediately obvious to the previous Trustees, however, in the year 1950 -- after the passenger load had already dropped nearly 100 million passengers a year -- the Trustees expended on this proposed project \$210,000.00 for engineering services, and in 1951 they continued this extravagance and spent an additional \$448,000.00, and in 1952 with the passenger load still dropping, a further sum of \$58,399.22 was expended.

The new Trustees should study the proposed alterations of this subway and determine what, if any, changes are needed to carry the present passenger load.

(c) Extension to Revere: As this Department has previously stated, it is our opinion that solution of the problems of the Metropolitan Transit Authority rests with extension of rapid transit. Several years ago this Department originally recommended a further extension of rapid transit from East Boston to Revere over the right of way of the old Boston, Revere Beach and Lynn Railway which was already owned by the Metropolitan Transit Authority. This recommendation was ignored until representatives in the General Court from the Revere area submitted legislation ordering such an extension. This amendment to Chapter 649 of the Acts of 1949 was adopted by Chapter 418 of the Acts of 1952 and provided that the cost of this extension to Revere would not exceed \$3,000,000.00.

In 1952, the Authority petitioned the Department of Public Utilities for permission to proceed with this extension and their estimate of the total cost of this construction amounted to \$2,851,714.00. Included in this amount are the following estimated costs for the construction of stations:

| <u>Station</u> | <u>Cost</u> |
|----------------|--------------|
| Beachmont | \$431,050 00 |
| Crescent Beach | 283,200 00 |
| Bath House | 206,480 00 |
| Suffolk Downs | 64,350 00 |

It is the opinion of this Department that the costs as proposed herein for these stations is excessive and represents needless extravagance which will minimize the savings and improvement in income which might be expected from this extension. It is recommended that the Trustees review these proposed costs to determine whether or not it will be possible to operate this extension without the construction of such elaborate and costly stations.

Every means available to reduce the costs of the MTA for such construction should be considered, and in this connection attention is directed to a contract that was entered into between the Metropolitan District Commission and the Metropolitan Transit Authority in April 1952. Under the terms of this contract the Authority will move certain elevated pillars in Lechmere Square, the costs of which will be reimbursed to the Authority out of MDC funds. The total estimated cost of this relocation work has been estimated by an officer of the Authority to be \$180,000.00 and the total bills rendered by the Authority to date of our audit have amounted to \$58,060.13. While we consider the cost as estimated by the Authority to be high, the principal involved that the MTA should be reimbursed for cost of work or construction which is of no assistance to the Authority but only helps to ease surface traffic conditions for automobiles is entirely reasonable, and more such arrangements should be entered into by the Authority with the Department of Public Works and the Metropolitan District Commission. A pertinent example would be the construction of the Revere extension. The railroad right of way now owned by the Metropolitan Transit Authority is completely overpassed and underpassed throughout the whole length of the extension except at Beachmont, and in order to elevate the Beachmont station so as not to interfere with the orderly flow of automobile traffic will cost the Authority more than \$200,000.00. Elevation of the station and construction of the overpass has for its only purpose the elimination of a grade crossing for the benefit of the autoists, and it is believed that it would be entirely proper for the Metropolitan District Commission or the Department of Public Works to reimburse the Railway for the extra cost involved in overpassing this road.

(d) Off-Street Parking: On October 25, 1949 under the provisions of Chapter 544 of the Acts of 1947 the Authority borrowed \$150,000.00 for the purpose of providing off-street parking facilities, and as of December 31, 1952 had spent \$66,746.09 on such installations.

It is the considered opinion of this Department (and it has been previously stated) that further expansion of off-street parking facilities is an unwarranted expense if paid by the MTA, but it is also immediately evident that an increase of these facilities at outlying stations of the Authority could provide an immediate means of relieving traffic in downtown Boston.

From a practical point of view, it is impossible for the Railway to recover through

additional revenue the cost of providing these areas, but these areas serve the additional purpose of relieving traffic in the downtown areas of Boston and lessening Boston's costs in providing downtown parking areas. The continued costly expansion of parking facilities in downtown Boston reduces the taxable property of the City of Boston and the costs of converting these areas to parking facilities are high and they have the further effect of reducing the income of the Railway and adding to the deficit.

For these reasons and because of the additional fact that many of the existing facilities are so located that even in those areas constructed by the MTA at outlying stations the facilities are largely used by personnel working in the areas who never use the Railway, it is the opinion of this Department that the erection of these parking facilities at outlying areas should be amplified and extended but the cost of providing such facilities be taken from other sources than MTA funds.

(e) Extension to Cambridge and Arlington: Chapter 613 of the Acts of 1952 authorized the Authority to expend up to \$200,000.00 for the purpose of making surveys and borings in connection with studies relative to the extension of rapid transit facilities in Cambridge and Arlington. As of the date of audit, \$53,832.40 had been spent on such studies and there were additional commitments outstanding amounting to \$1,545.60.

It is recommended that the Trustees consider in the planning of these extensions whether or not they can be provided by joint use of existing right of ways. The expansion of rapid transit service in these areas is highly desirable because of the added income they will accrue and because of the decrease that will result in operating costs, but again we reiterate that the cost of such extensions must be held to an absolute minimum if they are to prove financially successful.

(f) Airport Station: In a previous report the location of the new Airport Station on the East Boston extension was commented on. In the Black Book, the Trustees attempted to disclaim all responsibility for the present location of the Airport Station. This station which cost over \$1,300,000.00 to construct, is at present taking in about \$65.00 a day and serving slightly more than 400 people. Its location is not advantageous to the Airport and it is certainly of no value to the residents of East Boston. The Trustees' answer was that they had nothing to do with the construction of the Airport Station and that it was built by the Transit Commission of the City of Boston. This basic statement is correct, but we doubt very seriously that this station was erected without their approval, and we know that it was built without any objection from them.

13. CAPITAL EXPENDITURES - 1951: In our most recent report, the fact was brought out that \$85,800.17 was paid by the MTA in the purchase of tokens and then charged to operating expenses, with the effect that although these tokens will remain in use for many years, the entire charge was made to one year's operations and the deficit was thereby increased in that full amount. To give substance to our criticism, we cited as an example the Chicago Transit Authority, which in a letter to this Department stated that tokens should be capitalized and not charged to operating expenses.

The former Trustees in their reply in the Black Book cited as examples of agencies following the procedures adopted by them, five different railway companies who charged tokens to operating expenses. It is worthy of comment that everyone of the five companies produced in evidence by the Trustees are privately-owned corporations, while the Chicago Transit Authority, whom we quoted in our report, is a publicly-owned transportation system and one that is operating at a profit. The Trustees also claimed that the practice of charging tokens to operating expenses is ordered by I.C.C. Here, then, is another conflict between what is best for the taxpayers and the I.C.C. regulations. In such instances, we believe that the welfare of the taxpayers should govern the action of the Trustees.

14. RENTAL OF OFFICE SPACE: For the calendar year 1952, the Authority paid \$123,124.62 for the space now occupied by their general offices, and under the terms of the present lease, beginning with the year 1953 this rent will increase approximately \$6,600.00, which will bring the cost to approximately \$130,000.00 per annum.

It is worthy of comment that the 1953 and 1954 rental costs will be approximately 60% higher than that paid for the year 1949. Our previous audit report commented on this situation, as follows:

"In view of the fact that the Authority is now exempt from real estate taxes (Statute 1949, Chapter 572, Section 6), substantial savings

could result from erection of a building to house the main offices of the Metropolitan Transit Authority."

The Authority immediately discounted this recommendation by stating that an adequate building for their purposes would cost approximately \$2,000,000.00. We have no knowledge of exactly how elaborate a structure the then Trustees felt that they were entitled to; however, it is worthy of comment that for their general offices at the present time, the MTA is renting 44,583 square feet, and much of it is wasted since the area rented is broken up into many small offices, and in the 1948-49 year the Trustees erected an Engineering and Maintenance Building with usable office space totaling 16,361 square feet at a cost of slightly more than one-quarter million dollars. This Department sees no reason why an adequate building for MTA purposes could not be constructed for less than one million dollars, which certainly would be a justifiable capital outlay in view of the fact that their annual rental charges will soon reach \$130,000.00 per year.

15. USE OF MTA FACILITIES BY OTHER TRANSPORTATION SYSTEMS: MTA station facilities are used extensively by other transportation companies to receive and discharge passengers, and in only three instances is the Authority reimbursed for the use of these facilities, and then at a standard fee of seven and one-half cents per bus.

The common use of facilities constructed by and at the expense of the Authority by other transportation companies without charge for the use of these facilities is not reasonable. Such facilities are mutually advantageous to the MTA and to the company or companies involved, and it is the opinion of this Department that a more equitable distribution of the cost of maintaining these facilities should be attempted.

It is recommended that the Trustees study this suggestion.

16. PAY ROLLS: For the year ending December 31, 1952, the annual executive pay roll of the Railway amounted to \$925,874.93, which represented a decrease in cost of \$1,058.65 over the preceding year.

It is worthy of comment that in 1946 this pay roll included 117 executives at a monthly cost of \$64,658.01, and in December 1952, when the passenger load of the Railway has dropped by more than 156,000,000 riders, that same pay roll includes three additional executives and the net pay roll for December 1952 amounted to \$75,129.52.

The number of employees on the weekly pay roll as of December 28, 1952 was 7,421. By comparison with the weekly pay roll for December 27, 1946, there were 7,824 employees, representing a decrease of 403 employees.

17. PASSENGER AUTOMOBILES: Our only comment with regard to the passenger automobiles operated by the Metropolitan Transit Authority has been to recommend that a study be made to determine the number of automobiles actually needed by the MTA.

In the Black Book, the Trustees discussed at great length a theoretical case of an inspector traveling from Waverly to Arlington Centre, which was, of course, not pertinent to our recommendation. They said also that of the forty-two passenger cars owned by the Railway, thirteen are garaged on company property and twenty-nine are garaged by the supervisors at home. This is not correct. On April 25, 1952 the Railway owned and operated forty-six passenger automobiles, and while on their registration it was indicated that in every instance their principle garaging would be at Albany Street, Boston, during the course of our recent audit we spot-checked the facilities at Albany Street at night, and only one of the forty-six cars was found garaged there. Employees at the garage said it was the only car that was garaged there.

It is the contention of this Department that a survey should be made to determine which of these cars are needed, and that all others should be disposed of, since if the Trustees and executives are satisfied with the transportation they are providing to the taxpayers of the District who are paying their salaries, then the same service should be adequate and satisfactory for their own use.

As of December 31, 1952, the Railway owned and operated forty-two passenger vehicles which were assigned to various executives and employees of the Authority. These cars were valued at \$77,832.44.

18. MAGAZINE "CO-OPERATION": The Authority publishes at irregular intervals a magazine called "CO-OPERATION". During the year 1952, there were three issues of this magazine published at a cost of \$14,866.11, which cost is included in the cost of service.

Attention is again directed to the fact that this covers only the actual publishing

costs, and the salaries and wages of the employees of the Railway who compile, edit and set up this magazine are not included.

It is recommended to the Trustees that an honest appraisal be made of the value of this magazine to determine whether or not its publication should be continued.

19. CONCESSIONS: Income from concessions totaled \$1,042,832.77 for the year ended December 31, 1952. This income consists of station and advertising privileges, miscellaneous tenant agreements, rent of buildings and other properties, income from miscellaneous physical property, and rent of tract and facilities. The MTA accountants verified \$942,765.90 of this income.

During the course of our audit for the year ended December 31, 1950, we came upon the fact that most of the concessionaires of the Railway operated on other than flat rental agreements and that the Railway income was usually based on a percentage of the gross income of the concessionaires. During the year 1950, the Railway income from this source amounted to \$1,042,849.19, and of this entire amount MTA accountants verified only \$101,590.42 and the balance of the income amounting to \$941,258.77 was accepted on the unsupported reports of the concessionaires. We asked the Authority to authorize the Department of the State Auditor to examine the accounts of these concessionaires and were refused. Apparently as a result of our request, for the year 1951 practically all of the income from concessionaires was audited, however, since it was the considered opinion of this Department that we should be permitted to conduct such audits of concessionaires if we deem them advisable or necessary, a request was made to the new Trustees during the course of this audit that such designation be made. On May 8, 1953, the new Board of Trustees did designate the Department of the State Auditor as the representative of the Metropolitan Transit Authority for the purpose of conducting audits of certain concessions that said Department requested to audit. These audits were completed by the Department of the State Auditor and the income was verified.

On December 19, 1952, National Transitads, Inc., notified the Authority of its termination of their contract effective December 31, 1953. The advertising company sought to have the 1953 and 1954 minimum payments reduced from \$432,000.00 to \$400,000.00. The action of Transitads, Inc., is based on claimed losses resulting from the drop in passengers carried by the MTA.

20. RETIREMENT BOARD: This board was created originally as a result of an agreement between the Authority and the Amalgamated Union and has since been extended to cover other employees of the Railway.

The statement of the Trustees in the Black Book relating to the retirement association is a direct evasion of the charges made in our audit report. Our contention was, and still is, that the officials and Trustees of the road, who, previous to the establishment of the retirement system, were retired by vote of the Trustees without any contributions whatsoever, that these same officials have taken advantage of the fact that the Legislature ordered a retirement system to be set up and now have included themselves under its most generous provisions.

It certainly is normal for any individual or group of individuals joining a retirement system that they be required to make up the contributions for the period of their service for which no contributions were made. Under the present system, the retirement of the officials represents a distinct drain on the funds of the retirement system.

In our previous report we commented on the fact that under the company pension plan, over 80% of the employees retired under that plan receive only \$40.00 a month. On January 1, 1952 by vote of the Board of Trustees, the minimum allowance to employees thus retired was raised to \$50.00 a month.

The accounts of the Retirement Board were not examined during the course of the audit; however, it was noted that during the past three years the contributions of the MTA have been as follows:

| | <u>1950</u> | <u>1951</u> | <u>1952</u> |
|--|----------------|----------------|----------------|
| Retirement Fund | \$1,383,363 64 | \$1,459,577 90 | \$1,528,032 26 |
| Paid Pensions to Former Employees | 151,144 40 | 163,000 75 | 172,343 39 |
| Health and Accident Insurance | 71,171 99 | 82,915 28 | 115,705 70 |
| Pension Plan Provided by Ch. 601, Acts of 1950. Applying to Disabled Veterans with Permanent | | | |

Civil Service Status. (Formerly
City of Boston Employees)

| | | |
|-----------------------|-----------------------|-----------------------|
| - | \$ 1,884 55 | \$ 2,874 63 |
| <u>\$1,605,680 03</u> | <u>\$1,707,378 48</u> | <u>\$1,818,955 98</u> |

In addition to these expenditures, during the year 1951 the Authority for the first time paid Social Security taxes in the amount of \$429,629.72 and in 1952 paid \$410,645.26.

21. POWER PLANTS: At the present time, the Authority owns and operates two generating stations, one at South Boston and the other at Lincoln Wharf. Both of these stations generate alternating current which is then transferred to twenty-one sub-stations where the current is converted to direct current and distributed to the actual operations of the Railway. As of December 31, 1952, the Railway's investment in land, power plant buildings, wharves, equipment and transmission systems had a book value of \$17,487,948.87.

The Lincoln Station and South Boston generating stations during 1952 respectively produced 167,598,000 and 96,471,000 kilowatt hours at a total cost of \$2,351,154.61. The cost of sub-stations, transmission and administrative expenses increased the cost to \$3,206,021.76, resulting in a unit cost of 12.14 mills per kilowatt.

On December 30, 1948 the Boston Edison and MTA executed an agreement effective in October 1950 wherein there would be an interchange of electric power during peak periods. This contract has been mutually advantageous because their respective peak load periods did not coincide. During the year 1952, the Authority sold to Boston Edison 22,616,000 kilowatts for \$259,792.65, which represents a unit price per kilowatt of 11.49 mills. During this same period, the Railway purchased from Boston Edison 15,086,000 kilowatts at a cost of \$129,934.26, representing a cost of 8.62 mills per kilowatt.

This Department has been advised that both generating stations of the Authority are out-of-date and that the costs of production of power are substantially higher than would be for power produced by modern generating stations.

Attention is directed to the fact that during 1952 the cost per kilowatt hour to the Authority amounted to 12.14 mills, while during that same year the Railway purchased power from Boston Edison at the rate of 8.62 mills per kilowatt.

This Department does not know whether or not all of the power regularly used by the Authority could be purchased from Boston Edison at the cost the Railway is now paying; however, if power can be purchased at that figure, or reasonably close to it, it could be to the advantage of the Authority to dispose of their investment in power plants and to purchase their power from private sources.

It is recommended that this matter be studied by the Trustees, and in the event that it is deemed advisable to dispose of the MTA holdings in generating equipment, that the proceeds realized from such sale be devoted to a reduction of the general debt of the Authority.

22. GASOLINE TAXES: During the year 1952, the Metropolitan Transit Authority paid State gasoline taxes in the amount of \$172,122.44 and an additional State tax of \$32,277.45 was paid on diesel oil used by the Authority.

With regard to the above, our previous audit reports stated:

"It was noted that the Metropolitan Transit Authority pays to the Commonwealth approximately \$170,000.00 per year in gasoline taxes. When Chapter 572 of the Acts of 1949 was originally discussed, the Legislature refused to accept the section of the bill which provided exemption from gasoline taxes to the Metropolitan Transit Authority.

"It is recommended that this amendment be again offered to the Legislature for reconsideration. The Metropolitan Transit Authority is a public agency, operated by a political subdivision of the State, and further consideration should be given the fact that of all the miles operated by the Metropolitan Transit Authority buses, only a fraction of such mileage is performed on State highways, for which the major part of the revenue from gasoline taxes is expended."

Such legislation was introduced in the 1953 Legislature and was defeated. This Department still feels quite strongly that the Metropolitan Transit Authority should be

relieved from further payment of these taxes, and it is again recommended to the Legislature that such exemption be granted the Railway.

23. ADVISORY BOARD: In the MTA audit report issued by this Department on June 24, 1950 covering the calendar year 1949, this Department first recommended that an advisory board be created by the Legislature which would have a certain amount of financial control over the Authority.

Such Board was created by the Legislature by Chapter 404 of the Acts of 1952, but in setting it up the Legislature failed to give the group any semblance of control over the Railway. Our later audit reports have reiterated our original contention that the Board should have some measure of financial control over the Authority. Chapter 197 of the Acts of 1953, which reorganized the Board of Trustees of the Metropolitan Transit Authority gave the Board a very limited authority consisting mainly of the right to approve the appointment of a general manager or an officer of the Railway and the power to approve the issuance of the bonds for the purpose of providing funds for new construction.

This Department again recommends that the Advisory Board be given authority to approve in advance a budget prepared under the direction of the Trustees of the Authority. Objections have previously been raised to this suggestion based on the mistaken impression that it was the recommendation of this Department that a fourteen-man board should attempt to actually operate the Railway. This is not the case. The relationship of the Advisory Council to the Railway would be similar to the relationship maintained between the Ways and Means Committee of the General Court and any department of State Government. Under this proposal, the Railway would prepare a budget in November of the year preceding and present it to the Advisory Council for approval. The authority of the Advisory Council to revise or to delete items from this budget would be final, and should later alterations prove necessary in such a budget it would be a simple matter to call a meeting of the Advisory Council to act on such alterations.

Budgeting would constitute an orderly method of examining and appraising the operations of the Railway. It establishes in advance the objective of the budget period and provides a means of co-ordinating the activities of the various sub-divisions and departments of the MTA with the cities and towns which it serves.

In the lack of legislation ordering such procedures, there is nothing that would prevent the present Trustees of the Authority from co-operating with the Advisory Board to the extent of furnishing them with a detailed budget, delineating their objectives for the ensuing year, their proposed expenditures and the means by which they propose to finance these expenditures. Certainly such a plan would give to the representatives of the peoples of the cities and towns a more workable knowledge of MTA operations, and even better, would give them notice more than a year in advance of the estimated amount of the deficit which they might later be called upon to pay.

24. INVESTMENT OF EXCESS FUNDS: As of March 31, 1953 the Authority had on hand \$3,884,038.00 in special bank accounts to pay the costs of various construction projects authorized by the General Court.

The terms under which the Authority was authorized to borrow these monies limited the use of these funds to the payment of the cost of the construction of the individual projects involved. For that reason the new Trustees have sought legislative permission to invest these funds in government obligations which would result in income to the Authority. This Department agrees that the proposal made by the new Trustees that they be allowed to invest these funds was the only course left open since the funds were already borrowed by their predecessors and were lying idle.

It is recommended that in the future when such construction is undertaken, that rather than borrowing immediately the full amount authorized by the General Court as the previous Trustees have done, that the Authority borrow money under temporary notes as needed until such time as the project involved is completed and the financial cost is determined, at which time bonds would be issued in the exact amount of the cost of the construction of the facility and the temporary notes would then be retired.

25. BOSTON ELEVATED RAILWAY COMPANY: According to a report of a Revenue Agent, dated September 16, 1949, the overall capital gains tax levied against the Boston Elevated Railway Company was \$7,658,985.54.

A payment of \$6,177,796.50 was made against the amount levied, leaving an unpaid balance of \$1,481,189.04. The amount paid to date has been taken from the \$85.00 per share settlement made by the MTA at the time of public acquisition, and payment of the balance is being contested by the Boston Elevated Railway Company Receivers.

The cash balance of the Boston Elevated Railway Company on December 31, 1952 was \$2,267,608.28 as shown in the receiver's report filed in Suffolk Superior Court (Equity #62687). With the exception of about \$71,000.00 in cash, the remainder has been converted into government securities.

When final settlement is arrived at with the Government, the remaining cash will be distributed to the stockholders.

BOSTON METROPOLITAN DISTRICT

REPORT NO. 53-76

Audit: The report of this examination is being issued in connection with a current audit of the Metropolitan Transit Authority which is now in progress and covers the period from January 1, 1952, the date of the previous audit, to December 31, 1952.

During this period, the Boston Metropolitan District issued bonds and notes totaling \$13,150,000.00.

The proceeds of three bond issues were used to purchase Metropolitan Transit Authority bonds totaling \$2,242,000.00.

On January 15, 1952 the District, under authority of Section 7A, Chapter 544 of the Acts of 1947, as amended, issued \$1,908,000.00 coupon bonds of 1952 Series A Bonds, bearing interest at 2.10% per annum, and maturing December 1, 1962 - 1982. The proceeds of this issue were used for refinancing the obligations of the District totaling \$1,907,371.89 which were to mature between March 1, 1952 and August 15, 1952 and could not be met by the application of the \$500,000.00 payment by the Metropolitan Transit Authority on June 1, 1952 in reduction of the principal of the \$71,418,371.89 Authority Bond dated August 3, 1949, and held by the District. The bonds were sold at a price of \$1,915,088.22 and accrued interest of \$890.40. A premium of \$7,088.22 was paid to the Metropolitan Transit Authority.

On January 15, 1952, the District also under authority of Section 8A (J), Chapter 544 of the Acts of 1947, as amended, issued \$1,650,000.00 coupon bonds, 1952 Series B Bonds, bearing interest at 2.10% per annum, and maturing January 15, 1953 - 1982. With the proceeds of this sale the District purchased a \$1,650,000.00 bond of the Metropolitan Transit Authority, bearing interest at 2.10%, to mature on January 15, 1982. There was paid for the bond the exact amount received by the District on the sale of its own bonds - \$1,656,129.75 plus accrued interest totaling \$770.00. This bond issue was for the purpose of providing additional funds for rapid transit facilities and alterations.

On January 15, 1952 under authority of Section 22, Chapter 544 of the Acts of 1947, as amended, a bond issue was made consisting of \$592,000.00 coupon bonds, 1952 Series C, due January 15, 1953 - 1961, bearing interest at 2.10% per annum. The price was \$594,199.28 with accrued interest of \$276.27. With the proceeds of this issue, there was purchased serial bonds of the Metropolitan Transit Authority, with interest at 2.10%, to mature on January 15, 1961. The purpose of this issue by the Metropolitan Transit Authority was to provide or replace funds for the purchase of equipment.

In order to provide the Metropolitan Transit Authority with temporary financing, the District issued during the 1952 calendar year three notes totaling \$9,000,000.00. With these proceeds it purchased three Authority notes in similar amounts.

The first issue was for \$2,000,000.00 on February 15, 1952 becoming due on May 1, 1952; the second issue was for \$3,000,000.00 on July 10, 1952 to become due on May 1, 1953; and the third issue for \$4,000,000.00 was made on November 5, 1952 and will also be due May 1, 1953.

Prior to each of the aforementioned transactions a letter was received from the Metropolitan Transit Authority, requesting that the District purchase a temporary note of the Authority. It was also noted that the Trustees held duly called meetings in connection with each of the three issues as was indicated by its minute book. At these meetings consideration was apparently given by the Trustees to the financial reports and cash estimates which had been furnished it by the Authority before the issuance of the District notes. In the indicated three instances bids were requested and it appeared that awards were made to the bidder offering the most advantageous price.

The issue of these notes by the Metropolitan Transit Authority and their subsequent purchase by the District is authorized by Section 13 of Chapter 544 of the Acts of 1947, as amended.

Receipts under Rapid Transit Bond: On November 20, 1952 the District received the third installment of \$536,259.27 under the terms of the \$40,219,445.43 Rapid Transit Bond of the Authority held by the District. Amounts received in reduction of the principal amount of this bond are deposited in a separate account where they are held to

meet payments required on the Rapid Transit Bonds of the District. Pending the use of these funds for this purpose they may be invested as provided by Section 11 of Chapter 383 of the Acts of 1929. During the 1952 year the District made such investments in United States Treasury Bills. As of December 31, 1952 cash totaling \$1,305,514.40 was invested in U. S. Treasury Bills with a maturity value of \$1,312,000.00. As of the same date there was \$5,591.76 of uninvested cash on deposit in the National Shawmut Bank of Boston. Section 8A (C), Chapter 544, Acts of 1947, as amended, provides that income earned on this fund is to be paid to the Metropolitan Transit Authority. During the year 1952, the District paid to the Authority in this connection a total of \$13,328.84.

Purchase of Safe: It was noted that a safe was purchased in accordance with a vote of the Trustees meeting, which was held on April 4, 1951.

TRANSIT MUTUAL INSURANCE COMPANY

REPORT NO. 53-104

Distribution of Surplus: The affairs of the Transit Mutual Insurance Company are directly connected with operation of the Metropolitan Transit Authority since all of the officers and directors of the Transit Mutual Insurance Company are salaried employees of the Metropolitan Transit Authority. Since December 1947 none of the trustees or employees of the Metropolitan Transit Authority have received a salary for duties performed as officers or directors of the Transit Mutual Insurance Company, and in addition, it was voted on January 27, 1949 to abolish the director's fee of five dollars for attendance at regular meetings of the Insurance Company. The only income producing policy written for workmen's compensation is that of the Metropolitan Transit Authority and policies for general liability insurance are written only to permit the directors and officers of the Company to be policyholders as required in the Bylaws, and these latter policies are reinsured with another company.

Reinsurance: Under a "Reinsurance Agreement" which became effective April 1, 1949, this Company was reinsured on losses between \$25,000.00 and \$500,000.00 for any one accident or series of accidents arising out of any one event. Effective November 15, 1950 the coverage under this reinsurance agreement with the Peerless Casualty Company was changed by endorsement to \$50,000.00 up to \$500,000.00. Effective January 1, 1953 this reinsurance will be handled by Liberty Mutual Insurance Company.

Prior to 1951 the total premium for this reinsurance was 1/2 of 1% of the net premiums written. Effective January 1, 1951 the total premium was increased to 2% of the net premiums written. Statutory increases in benefits under the Workmen's Compensation Act were apparently factors in this increase of the rate.

Lease Agreement: As of January 1, 1952, the yearly rent of the premises at the Park Square Building occupied by the Transit Mutual Insurance Company was increased from \$2,810.00 to \$3,300.00. The rent for 1953 was again increased to \$3,600.00 as per lease agreement dated May 15, 1952 between the Park Square Building Trust and the Transit Mutual Insurance Company.

Reserve for Workmen's Compensation Losses: The total of the Reserve for Workmen's Compensation Losses at December 31, 1952 consists of the following:

| | |
|-------------------------------------|---------------------|
| Loss Reserve (Case Basis) | \$326,326 72 |
| Excess Loss Reserve | 46,799 34 |
| Reserve for Loss Adjustment Expense | 2,500 00 |
| Total | <u>\$375,626 06</u> |

Future Dividends: It was noted that the Surplus as regarding policyholders totaled \$220,864.88 on December 31, 1952. This amount represents an increase of \$26,193.11 over that indicated at the close of the previous year. On this basis it would seem that dividends declared in 1953 should be greater than those declared during the past three years.

Retirement Allowance of Employee: It was noted that the Board of Directors on March 10, 1953 voted the following:

"VOTED: That the retirement of ... be and hereby is approved effective as of April 1, 1953, and that under and in accordance with the provisions of section 36 of Chapter 175 of the General Laws of the Commonwealth of Massachusetts, he be and hereby is granted a pension consisting of a monthly retirement allowance of \$365.42 commencing with the month of April 1953, such monthly retirement allowance having been computed on the basis of a normal retirement allowance as defined in the Rules and Regulations of the Metropolitan Transit Authority Retirement Fund, except that the membership service allowance from January 1, 1948 to March 1, 1953, his normal retirement date, has been reduced by one-half in accordance with the vote of this Board adopted on February 9, 1949; said retirement allowance to be payable in accordance with the Rules and Regulations of the Metropolitan Transit Authority Retirement Fund."

NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD AND
NANTUCKET STEAMSHIP AUTHORITY

Section 14 of Chapter 544 of the Acts of 1948 provides in part as follows:

"SECTION 14. Report -- On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the preceding calendar year to the governor and to the general court. Each such report shall set forth a complete operating and financial statement covering its operations during the year. The Authority shall cause an audit of its books to be made at least once in each year by the state auditor, and the cost thereof may be treated as part of the operation of the project. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws."

A complete report of an audit of the accounts of the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority for the calendar year ending December 31, 1952 was issued on June 8, 1953.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, and the Senators, Representatives and officials of the cities and towns of the area served by the Authority and the members and officials of the Authority.

The following comments, exceptions and recommendations were included in the report issued in connection with this examination:

REPORT NO. 53-84

Audit: This audit was conducted under the provisions of Section 14 of Chapter 544 of the Acts of 1948, the legislation which established this Authority.

General: The New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is a public agency created by the legislature for the prime purpose of supplying adequate transportation to a specified area within the Commonwealth. A careful study of the act in its entirety clearly indicates that the legislative intent was to preserve the economic status of the entire area served by the steamship line, and from no section of that act can it even be inferred that there was legislative intent that the operations of the steamship line should or could be manipulated in such a way as to give preference to one area over another.

The act provides that the Authority shall consist of five members, one a resident of Nantucket, one a resident of Martha's Vineyard, one a resident of New Bedford, and one a resident of Falmouth, with the further provision that a fifth member without a specified place of residence shall be designated as chairman.

While the original intent of the legislature to give representation to each section within the area of the Authority seemed both logical and sensible, in actual practice it has worked out to the detriment of the steamship line and has fostered a narrow sectionalism within the Authority which has made it impossible for the board to effectively manage the operations of the steamship line. A study of the votes of the members on various matters clearly demonstrates that their decisions have not been objective and that they have been unduly concerned with what is best for their individual communities regardless of the effect of their votes upon the over-all operations of the Authority.

It is recommended that the present members of the Authority be reduced to the status of an advisory committee and that a new authority of three members be created, none of whom should live within the area of the Authority or should have any interest, direct or indirect, in any business conducted within the area.

Operations: There can be no doubt that from the very beginning of the operations of this Authority it has been the intent of the majority of its members to eliminate New Bedford as one of the ports served by the steamship line. In the furtherance of this policy, the Authority has spent more than \$190,000.00 to create terminal facilities at Woods Hole which are a duplicate of existing facilities at New Bedford, and having spent this substantial sum they now claim that geography and geography alone is the cause of the tremendous decrease in shipping from the port of New Bedford. If geography is an element in this transfer of shipping, then such geography has been given a substantial assist by the Authority which has set up differentials in freight rates which have raised the cost of shipping from New Bedford to a point approximately 20% higher than the cost of shipping from Woods Hole, and, in addition, they have sharply curtailed the services from New Bedford to a point distinctly to the disadvantage of passengers or freight using the New Bedford terminal. They have recently caused to be announced as a fact that the Authority is losing more than \$95,000.00 a year from operations of the New Bedford terminal, but the figure that has been reported has not been substantiated since allocation and distribution of cost play an important part in arriving at such a figure, and no announcement of the basis upon which this loss was determined was announced. It is immediately obvious that if the preferential treatment now being given Woods Hole were transferred to New Bedford, the loss from Woods Hole would be at least as high as that which they now attribute to New Bedford. If the members of the Authority have a problem in choosing between New Bedford and Woods Hole, it is a problem of their own making which came about as a result of their creation of the facilities which now exist at Woods Hole. Certainly it can be demonstrated that no far reaching plans were made when the facilities at Woods Hole were erected, for among the facilities thus provided, a large freight shed was erected in 1951, and now since June 1952 the Authority has adopted a program to encourage shipments through that port by shippers' vehicles, and they now recommend strongly that rates be modified to further encourage such shipments. Should they be permitted to modify their rates in this direction, then more than \$140,000.00 expended for the freight shed at Woods Hole will have been wasted.

The improvident and sectionalized activities of this Authority would long ago have resulted in its complete financial collapse if the Authority was not operating a practical monopoly in the transportation of persons and freight to and from the islands. They are quick to boast of the increase in income from transportation of freight during this last year, but they fail to give proper publicity or to bring any attention to the fact that the increase resulted solely from exorbitant rates which they themselves instituted, while

they actually carried less freight than was transported in the previous year. They have, therefore, given encouragement to competition and so long as their high rates and freight differentials exist, they encourage such competition to grow and to expand. The effect of these policies upon the inhabitants of the island has been to substantially increase the cost of living to its inhabitants and, at the same time, they are bringing financial difficulties to businesses in the City of New Bedford which have served the islands for many years.

The entire fabric of the plan of the Authority to expand the facilities at Woods Hole and to strangle the New Bedford terminal is based on illogical and narrow thinking. If we agree that it is more economical to ship from Woods Hole than New Bedford, we agree only that savings may result to the Authority itself but the ultimate consumer must pay the extra costs of getting the goods to Woods Hole. In most instances the goods must still come from New Bedford, and we doubt that even the Authority will insist that trucking and extra handling costs from New Bedford to Woods Hole would be less than shipping directly by steamship.

The Authority should be advised that their basic responsibility is to the consumer taxpayer and that Authority savings which result in greater costs to the individual in the area are not true savings, and that they should cease their efforts to rearrange the economics and the geography of the area. We recommend --

- (1) That the freight differentials now existing between shipments from New Bedford and from Woods Hole be brought down to a point where they more properly represent the actual difference in the Authority's cost between shipping from New Bedford and Woods Hole.
- (2) That New Bedford be given a more equitable share of the services provided by the steamship line.

Results of 1952 Operations: Gross operating revenues increased from \$1,376,205.93 in 1951 to \$1,609,373.44 in 1952. This increase was occasioned by the larger number of passengers and automobiles carried, together with higher tariffs and fares, despite the fact that freight handled was lower in volume.

It was also noted that operating expenses also increased from \$1,448,245.79 in 1951 to \$1,524,991.95 in 1952, principally because of increased pay roll and maintenance expenses.

As a result of the foregoing, operations showed a gain of \$84,381.49 in 1952 as compared with a loss of \$72,039.86 in 1951. The net cost of service was also reduced from \$276,476.44 in 1951 to \$107,658.38 in 1952.

Expenditures for capital additions totaled \$23,348.70 in 1952 as against \$242,153.83 in 1951 and included expenditures of \$1,046.72 from the Property Replacement Fund and \$22,301.98 from the Capital Improvement Fund. Of the amount expended for capital additions in 1951, approximately \$140,000.00 was for the construction of a freight shed at Woods Hole.

The number of passengers was increased from 381,998 in 1951 to 405,339 in 1952, and the number of passenger cars increased from 47,421 to 49,615. However, freight tonnage decreased from 43,146 to 42,045 tons for the same period, and obviously indicates that shippers are using other facilities to avoid the high rates of the Authority.

Transfers from the Sinking Fund totaled \$183,210.00 in 1952, and \$100,000.00 thereof represented funds for the retirement of bonds while the remainder of \$83,210.00 was for interest payments.

Cost of Service: We disagree thoroughly with the claim of the Authority that a profit of \$1,550.55 resulted from 1952 operations. Attention is directed to Section 5C of Chapter 544 of the Acts of 1948, as amended, which reads in part as follows:

"The cost of the service shall include . . . (5) interest and amortization (including amortization of discount or premium) on bonds or notes of the Authority issued under this act, . . ."

Section 410 of the Bond Resolution further defines the cost of service and states:

"If the income and revenues of the Authority in any fiscal year shall be insufficient to meet the cost of the service as defined in the Act, including, among other items, the current expenses of operation

and the payment of the interest on and the amortization and payment of the principal of the bonds as the same become due and payable, . . ."

Therefore, while the Authority reported a net gain of \$1,550.55 in its operating statement for the calendar year 1952, this amount, by statute, should be adjusted since it does not reflect the cost of bonds amortized, which in 1952 totaled \$100,000.00.

The reported net gain is subject to further adjustment because it includes \$9,208.93 which represented income from the investments of the Segregated Funds of the Authority. Inasmuch as these items must be held in trust and cannot be used in normal operations, the interest earned on such investments should not have been included in the operating statement.

If the foregoing items had been properly considered, a loss of \$107,658.38 would have resulted rather than the reported profit of \$1,550.55 computed as follows:

| | | |
|--------------------------------------|-------------|-----------------------|
| Profit per Authority's Annual Report | | \$ 1,550 55 |
| Less: | | |
| Suggested Adjustments: | | |
| Income from Other Funds | \$ 9,208 93 | |
| Amortization of Bonds in 1952 | 100,000 00 | 109,208 93 |
| Adjusted Profit (Loss) | | <u>(\$107,658 38)</u> |

Freight Rates: In its review of operations shown in the annual report for the 1952 calendar year, the Authority categorically stated that the increase in traffic proved that the rate increases were acceptable to the public making use of the steamship facilities. At a later point in the same report, however, cognizance is taken of the fact that competing lines continue to make inroads in handling freight.

Actually there is no question as to the economic effect of the excessive freight rates which were adopted in the latter part of 1951. These new freight rates have stimulated competition to such an extent that the freight tonnage has decreased from 45,986 tons in 1950 to 42,045 tons in 1952. Since there is no evidence of any lessening of the physical requirements of the residents of this area, it is obvious that the shippers to the islands are diverting their freight business.

In view of the fact that the Authority was created by the Legislature to provide adequate services to the islands, it is suggested, in order to control the expansion of competition, that efforts be made to obtain legislation which would require competitors to prove public necessity before they obtain the privilege of operating.

New Bedford Terminal: It has been contended by the Authority that the freight and passenger traffic at New Bedford has been diminishing particularly in the winter months, during the past several years, and that Woods Hole is now preferable in every way as a point of embarkation. It has further stated that this situation is not due to any favor shown to Woods Hole or any other port by the Authority, but is "the result of geography".

Exception is taken to this stand because while it is true that the freight traffic out of New Bedford has decreased during the winter months of only the past two years, and not the past several years, this lesser volume has certainly not been "the result of geography".

The freight increases which were inaugurated in the latter part of 1951 established freight differentials which increased the cost of shipping from New Bedford to amounts approximately 20% higher than shipments from Woods Hole. These excessive rates have naturally diverted a great amount of freight traffic from New Bedford, and have of course had an adverse effect on the total freight business.

The marked decrease in freight traffic through New Bedford during the winter months of 1952-53 can also be attributed to the inadequate winter schedule set up at this terminal. This schedule, unlike winter schedules of former years, by-passed Martha's Vineyard where the greater part of the New Bedford's traffic flows and because of this arrangement, all freight to this island had to be transferred at Woods Hole and reshipped. As a result, goods shipped from New Bedford did not arrive at Martha's Vineyard until early evening. This schedule created particular hardships on shippers of perishable merchandise.

It is also interesting to note that this schedule was entirely different than any schedule previously used in all the years the line has been operated and was apparently arranged after the Authority had been unsuccessful in its attempt to suspend operations at the New Bedford terminal.

In connection with this matter attention is directed to the following comment which

was included in the previous audit report:

"Sums totaling in excess of \$190,000.00 have been expended by the Authority to erect new terminal facilities at Woods Hole, which are, in effect, a duplication of facilities already available and owned by the Authority in New Bedford."

This statement would certainly indicate that a certain amount of favor is being shown to Woods Hole, to the detriment of New Bedford.

There is no question that an economic loss would result to the City of New Bedford in the event that its terminal were closed during the winter months, and the fact must also be considered that the additional expenses of combined truck-boat service would greatly increase the prices of goods purchased by the islands.

In this same connection it would further appear that any action in sacrificing service at New Bedford might also jeopardize the rights of the bondholders, because the Authority proposes to give service to New Bedford only in the highly profitable summer months. Under the terms of the statute establishing this Authority, this City is to be assessed 15% of any deficiency, as outlined in the Act. As it would be most inequitable if such an assessment were made when New Bedford is being serviced only in the summer months, the City could justifiably seek legislative relief from such assessment. A substantial deficit assessment could be disastrous to the islands, and the Authority would be well advised to make every attempt to retain the substantial City of New Bedford within its assessable area.

Groceries and Grocery Supplies - Motor Transportation vs. Steamship Transportation: It will be noted in the tariff schedule (Table of Class Rates) that truck rates will vary with the volume of freight, therefore, it cannot be accurately estimated what the additional trucking cost could accrue to the consignees on the islands because of this factor.

If the freight from New Bedford to Martha's Vineyard was consolidated for motor transport to Woods Hole, as it undoubtedly would be, should New Bedford be closed, the minimum additional cost to the consignees for 20,000 lbs. of groceries and grocery supplies would amount to approximately \$.18 per 100 lbs. on the basis of the present tariff schedule computed as follows:

| | | |
|----------------------------------|--------|---------------|
| Trucking Cost: | | |
| Cost per 100 lbs. on Class #5 | | |
| (Groceries and grocery supplies) | | \$.22 |
| Less: | | |
| Steamship Saving: | | |
| New Bedford to Martha's Vineyard | \$.44 | |
| Woods Hole to Martha's Vineyard | .41 | .03 |
| Additional Cost per 100 lbs. to | | |
| Martha's Vineyard | | <u>\$.18</u> |

Note: The additional cost to Nantucket would be \$.17 because of a differential of \$.04 as between New Bedford and Woods Hole.

This comparison is based on the class rates as shown by the New England Rate Bureau, Inc., but there would undoubtedly be exceptions to these rates because of the preferential rates which might be established by the New Bedford trucking operators.

Since such bulk shipments of freight from New Bedford to Woods Hole have not yet been transported by truck, this matter of freight differentials is at the best a rough estimate.

Woods Hole Freight Shed: The previous audit report commented on the excessive expenditures at this terminal in the apparent duplication of facilities already in existence at New Bedford. In this connection, it was further noted at that time that \$141,999.57 had been expended to erect an elaborate freight shed which appeared to be more than adequate to accommodate the freight passing through this terminal.

Although less than two years have elapsed since the erection of that freight shed, the Authority now indicates that truck rates should be made more attractive to encourage the shipment of freight on trucks and trailers and thus relieve the Authority of the cost of freight handling. It is certainly evidence of poor planning to expend such a large

amount for a freight shed, and within a short time thereafter take steps to eliminate freight handling.

Depreciation: The charges to depreciation in the 1952 year amounted to \$181,434.18 as compared with \$177,391.08 for the previous year. This increase resulted from charges for depreciation on new assets and an adjustment of \$164.59 on equipment sold.

Previous audit reports have commented in great detail upon the excessive depreciation charges, and in this connection attention is again directed to Paragraph 3 of Section 403 of the Bond Resolution which reads in part as follows:

"... The Annual Budget for each fiscal year shall provide for the deposit to the credit of the Replacement Fund under the provisions of clause (c) of Section 404 of this Article of such amount, if any, but not exceeding One Hundred Thousand Dollars (\$100,000) in any fiscal year, as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and loss in respect to property sold, destroyed or abandoned."

This agreement obviously places a limit of \$100,000 per year on the amount that may be reserved for these purposes. It was noted that the amounts charged to depreciation, obsolescence, etc., in each year of the Authority's operations to date have been as follows:

| | Depreciation Charge |
|----------------------------------|------------------------|
| May 5, 1949 to December 31, 1949 | \$110,917 26 |
| Year 1950 | 170,685 43 |
| Year 1951 | 177,391 08 |
| Year 1952 | 181,434 18 |
| | <u>\$640,427 95</u> |

Report of Deficiency: It was noted that the balance sheet of the Authority indicated a deficit balance of \$57,139.76 in the Earned Surplus - Unappropriated account as of December 31, 1952. Inasmuch as this deficit is understated by \$210,000.00 because of the failure of the Authority to include the amortization of the principal retirements of the bonds in its cost of service since its inception, the annual deficit in this account should have been shown as \$267,139.76 as of the date indicated.

Section 9 of Chapter 544 of the Acts of 1948 outlines the procedure to be followed with respect to such deficits:

"Whenever the income of the Authority is insufficient to meet the cost of the service, as defined in section five, the reserve fund shall be used as far as necessary to make up said deficiency.

"If as of the last day of December in any year the amount remaining in the reserve fund shall be insufficient to meet the deficiency hereinbefore referred to, the Authority shall notify the state treasurer of the amount of such deficiency, less the amount, if any, in the reserve fund applicable thereto, and the commonwealth shall thereupon pay over to the Authority the amount so ascertained and the Authority shall apply the amount so received from the commonwealth in payment of such deficiency. Pending such payment, the Authority shall borrow such amount of money as may be necessary to enable it to make all payments as they become due.

"In order to meet any payment required of the commonwealth under this section, the state treasurer may borrow at any time, in anticipation of the assessments to be levied upon the cities and towns hereinafter specified, such sums of money as may be necessary to make said payments and he shall repay any sums so borrowed as soon after said assessments are paid as is expedient."

In further connection with this matter attention is called to the fact that the Reserve Fund as of December 31, 1952 totaled \$208,973.45. When this amount is deducted from the corrected surplus deficit of \$267,139.76, a deficiency of \$58,166.31 results for

purposes of interpretation of this statute.

Auditor's Fees: It was noted that the Accounts Payable as of December 31, 1952 included a total of \$8,320.88 owed to the Department of the State Auditor for the cost of audits made of the Authority's records since its inception. These costs have been charged by the Authority to operating expenses and have been reflected in the results of its annual income statements.

In this connection Section 14 of Chapter 544 of the Acts of 1948 reads as follows:

" . . . The Authority shall cause an audit of its books to be made at least once in each year by the state auditor and the cost thereof may be treated as part of the project . . . "

Since under the terms of this statute the payment of these bills is permissive, the Authority is probably within its rights in neglecting to pay them. However, if it was not the purpose of the Authority to pay these invoices, it was certainly unsound accounting practice to include them in the cost of service and thus affect the operating profit or loss.

It is, therefore, suggested that the cost of these audits either be paid or that necessary adjustments be made in order that this liability might be liquidated.

As a matter of information attention is directed to the fact that audit charges for the same period by the public accountants engaged by the Authority amounted to \$13,500.00.

Old Accounts Receivable: The previous audit report noted that an amount of \$427.98 which was due from a concessionaire had been placed in the hands of an attorney for collection and that there were no collections made on this account during the current audit period.

Inasmuch as this account has been outstanding since 1949, it is recommended that it be charged off if it now appears that all means of collection have been exhausted.

Woods Hole Terminal: On May 24, 1952 the Authority voted to transfer to the Public Works Department of the Commonwealth control of a part of its land at the Woods Hole Terminal which lay within a projected highway layout.

It was also noted that the Authority expended \$9,000.00 for the design of a new bridge at Woods Hole to be built by the Public Works Department of the Commonwealth. This action by the Authority was without precedent, because such costs have always been borne by the Commonwealth.

In connection with this project, on visiting the facilities at Woods Hole station, it was noted that a towering mound of dirt had been deposited on Authority property adjacent to the ferry slip. It was learned that this dirt fill had been left by a contractor engaged in the construction of a new State Highway which extends to the vicinity of the terminal.

There appears to be no record to indicate that the Authority had ever authorized this particular contractor to use its property as a dumping ground, and it is difficult to understand why the contractor was not enjoined from using it. It was learned, however, that there had been some sort of verbal approval to this arrangement by one or more of the members of the Authority.

This pile of earth has hampered the operation of this terminal for approximately three months, because it has restricted the available parking area and hindered the movement of cars embarking and disembarking at this station.

It is suggested that the Authority should officially take some positive action to obtain removal of this nuisance and relieve the congestion at the terminal. Since there had been no official approval by the Authority, the contractor responsible might well be charged for storage.

Lease of Land: Under date of May 24, 1952 the Authority voted to authorize one of its members to execute the following agreement for the lease of part of the land owned by it at Woods Hole:

C O P Y

THE NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD
AND NANTUCKET STEAMSHIP AUTHORITY

THIS AGREEMENT MADE ON THIS 24 DAY OF MAY, 1952,
BETWEEN THE NEW BEDFORD, WOODS HOLE, MARTHA'S VINE-
YARD AND NANTUCKET STEAMSHIP AUTHORITY, HEREINAFTER

REFERRED TO AS THE LESSOR, AND THE WOODS HOLE GARAGE, INC., OF WOODS HOLE, MASS., HEREINAFTER CALLED THE LESSEE, GRANTS TO THE LESSEE THE RIGHT TO USE A CERTAIN AREA OF LAND TO THE SOUTHWARD OF THE LESSOR'S FERRY SLIP AT WOODS HOLE FOR THE PURPOSE OF PARKING MOTOR VEHICLES FOR A PERIOD OF THREE YEARS.

THE LESSOR AGREES TO PAY TO THE LESSEE THE SUM OF FIVE HUNDRED DOLLARS (\$500.00) PER ANNUM, PAYABLE IN ADVANCE, FOR THIS PRIVILEGE AND FURTHER AGREES TO INDEMNIFY THE LESSOR AGAINST ANY ACTION OF CLAIM RESULTING FROM THE USE OF AFORESAID.

Woods Hole Garage, Inc.

/s/

N.B., W.H., M.V. & N. S/S Authority

/s/

In connection with the foregoing, attention is particularly directed to the fact that under the peculiar terms of this lease, the Authority would appear to have to pay to the lessee \$500.00 per annum for the lessee's use of the Authority's property.

In this connection it was noted, however, that the lessee had not taken advantage of the terms of payment as provided in the lease, but had turned over a check for \$500.00 as the initial annual payment to the Authority. This check has not yet been deposited by the Authority, but is being held in the accounting office until such time as the recommendations of an attorney, who was retained to review the matter of the lease upon its termination by the Authority, have been received and acted upon.

It would appear that this agreement was not only poorly drawn, but it was also contrary to Section 610 of the Bond Resolution which states:

"The Authority covenants that, so long as any bonds shall be outstanding and except as in this Resolution otherwise permitted, it will not sell, lease or otherwise dispose of or encumber the Steamship Facilities or any part thereof . . ."

Since the land which was leased is part of the "Steamship Facilities" defined in the Bond Resolution, this agreement was in violation of the terms of that contract.

In further relation to this matter in view of the fact that the Authority annually expends substantial sums for legal services, it is difficult to understand why an attorney was not authorized to properly negotiate this instrument. It is suggested that henceforth the Authority obtain the services of an attorney in all matters such as the foregoing, thereby avoiding possible later legal involvements.

Plans for New Steamer: On May 24, 1952, the Authority instructed its General Manager and Naval Architect to complete plans for a new steamer as soon as possible.

In this connection attention is directed to the fact that the Authority has made capital expenditures of \$801,803.55 since May 5, 1949, the date of acquisition, on the two steamers now in operation, which is \$264,892.63 more than the actual purchase cost of these assets.

Expenses of Members - General: There appears to be no standard procedure for the submission of members' expenses vouchers. In this connection it was noted that in certain instances travel vouchers not only applied to extended periods but were also lacking in substantiating detail. It was also noted that paid hotel vouchers, etc., had not been submitted.

It is, therefore, recommended that detailed expense vouchers be submitted at regular intervals and that necessary documentary evidence be attached.

Replacement Fund Investments: The previous audit report noted that the old balance in the Replacement Fund earned no interest during the 1951 year. In this connection it was noted that investments for this fund in United States Treasury Securities had earned \$1,975.15 during 1952. This income and any such future earnings will be retained in and become a part of the fund.

