



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2007-0595-3A

INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
AGAWAM HOUSING AUTHORITY
OCTOBER 1, 2004 TO DECEMBER 31, 2006

OFFICIAL AUDIT
REPORT
SEPTEMBER 27, 2007

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain activities of the Agawam Housing Authority for the period October 1, 2004 to December 31, 2006. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. Based upon our review, we have concluded that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in inappropriate expenditures, uneconomical practices, and the mismanagement of its housing programs during the 27-month period ended December 31, 2006.

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1. RESULTS OF INSPECTIONS – NONCOMPLIANCE WITH STATE SANITARY CODE

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The Department of Housing and Community Development's (DHCD) Property Maintenance Guide, Chapter 3(F), requires that inspections of dwelling units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code.

A DHCD report dated September 30, 2005 disclosed that 42 randomly selected housing units failed inspection. A follow-up report dated June 27, 2006 noted that very little progress had been made in addressing the numerous health and safety violations cited in the prior report; in fact, 38 of the same 42 units again failed inspection. Our March 28, 2007 inspection of six housing units at the Authority's 200 Development at Brady Village noted 13 instances of noncompliance with Chapter II of the Sanitary Code, including missing baseboard heat covers, crumbling walls, water stains on walls and ceilings, cracked electric switch plate covers, missing smoke detectors, broken seals on windows, and missing stair handrails. In its response, the Authority stated that it has applied for and received over \$1.5 million in the last eight months from DHCD for emergency capital improvements for interior and exterior work. In addition, the Authority's Board of Directors has adopted policies that require annual inspection of all units.

2. IMPROVEMENTS NEEDED REGARDING VACANCY TURNAROUND TIME

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Our review of the Authority's vacant unit turnaround time disclosed that the Authority encountered excessive delays in preparing vacated apartments for occupancy and may have lost the opportunity to earn approximately \$57,287 in potential rental income. Specifically, it took the Authority an average of 155 days to prepare and fill the vacant units, well beyond the recommended 21 days as defined by the Department of Housing and Community Development (DHCD) guidelines. There were 47 units with excessive vacancies during the audit period October 1, 2004 to December 31, 2006, and 17 (36%) of those units still required refurbishment. One unit has been vacant for over two years and six units have been vacant for over one year. In its response, the Authority stated

that it has implemented procedures to ensure that all vacant units are occupied within DHCD's 21-day time frame. Currently, all Program 667 units are occupied, all Program 705 units are occupied, and 17 units of Program 200 are awaiting renovations, for which DHCD has provided funding.

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A review of the Authority's fiscal year 2006 financial statements revealed a tenant accounts receivable balance of \$63,935 as of September 30, 2006. A detailed review of the balances revealed that the Authority did not actively monitor amounts due from tenants and may have experienced revenue losses as a result of inaccurate receivable balances. The inaccuracies in the balances were due, in part, to incorrect tenant rent determinations and improper postings to the Authority's rent rolls. (See Audit Result No. 9 for further details.) Also, our review of Board minutes revealed that there was no Board approval and no entry on the books of account for the tenant accounts receivable write-offs, totaling \$31,042. In its response, the Authority stated that it has adopted and is complying with an aggressive rent collection policy.

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Our review disclosed that the Authority's operating reserve was significantly below the minimum level recommended by DHCD. Moreover, we determined that the Board approved numerous questionable payments (see Audit Results Nos. 6, 7, and 11) and did not fulfill its fiduciary responsibilities to provide adequate oversight of Authority operations. As a result, the Authority may not have the financial resources necessary to fund emergency situations or maintain the current level of services provided. In its response, the Authority concurred that the prior Board did not fulfill its fiduciary responsibility for the overall proper administration of the Authority by establishing policies and guidelines and indicated that it expects to end this fiscal year with a reserve balance of \$121,000, which is the suggested minimal level required by DHCD. The Authority further indicated that in the future, the Board will take an active role in providing oversight.

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Our review disclosed that the Authority was operating without a personnel policy and neither the administrative staff nor the Executive Director prepared weekly timesheets. In addition, the system used to track employee leave balances does not meet DHCD standards. The Authority used post-it notes to track hours worked for each employee rather than a formal attendance report. We also noted that the Authority paid two administrative staff employees for compensatory time, even though administrative staff is prohibited from accruing compensatory time without the proper approval from DHCD. The two administrative staff employees received compensatory time payments of \$5,424 in February of 2006 and \$2,118 in October 2006. In its response, the Authority indicated that the approval of various policies and procedures now enables the Authority to have oversight control over its payroll records by (1) requiring that employee attendance records be prepared, reviewed, and approved in a timely manner, including those of the Executive Director; and (2) ensuring that all employee time records and accrued benefit

records are adequately documented to substantiate employee work hours and leave balances for each pay period.

6. QUESTIONABLE PAYMENTS TOTALING IN EXCESS OF \$8,000 **14**

Our review of Authority records revealed over \$8,000 in questionable payments associated with a former administrative employee. These payments included \$2,900 for outside attorney services, \$3,375 for a psychological evaluation of the former employee, and \$1,727 for wages and accrued sick leave. These payments were not approved by DHCD, and the \$1,727 in wages was in excess of what the former employee was entitled to based on available documentation.

In its response, the Authority stated that neither the current Executive Director nor Board of Commissioners was involved in this prolonged personnel dispute that resulted in an administrative employee's resignation and the subsequent payments made. The current Executive Director and Board of Commissioners understand that any such exposure for the Authority needs to be assigned to DHCD's risk management program to assess potential litigation and provide assistance and resources in order to protect both the Authority's and the Commonwealth's interest.

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The Authority entered into a management consultant contract, dated December 1, 2000, with the former Springfield Housing Authority's Director of Leased Housing for professional services rendered in the performance of rent re-evaluations of the Authority's 242 residents for fiscal year 2001. The initial \$15,000 contract was approved by DHCD with an expiration date of May 1, 2001. Following the contract's expiration, the Authority continued to pay for these consultant services, at the rate of \$50 per hour, without undertaking another procurement process or seeking alternate bids. The Authority did not seek or receive DHCD's approval for the contract extension; therefore, the contract was invalid. During the period April 1, 2004 to May 30, 2005, the Authority paid this consultant approximately \$18,100 (we were not able to determine the exact amount because of missing invoices). The Authority ceased payments to this consultant after DHCD's May 2005 on-site review found them to be questionable. In its response, the Authority stated that the current Executive Director and Board of Commissioners were not involved in the decisions to enter into the management consultant contract, and that the Board has adopted a DHCD-approved procurement policy for the Authority. This policy ensures that all procurement services are performed according to Chapter 30B of the General Laws and DHCD regulations.

8. NONCOMPLIANCE WITH TENANT SELECTION PROCEDURES **17**

Our audit revealed that the Authority's tenant selection procedures were not in compliance with DHCD policies and regulations. Tenant applications, leases, and waiting lists were neither properly handled nor maintained. Consequently, eligible applicants may have been denied or delayed housing assistance. In its response, the Authority stated that it has purchased software that allows total control and will ensure the properly ordered placement of housing applicants in addition to providing a system of checks and balances. The Authority's Master and Waiting List Ledgers are now up to date and in accordance with DHCD requirements.

9. RENT DETERMINATION DEFICIENCIES **20**

Our review of 25 tenant files noted that 15 tenants were charged incorrect rents based on insufficient documentation of income and deductions claimed by tenants. In its response, the Authority stated that the purchase of new software has allowed the Authority to gain control over all aspects of tenant selections as well as rent determination. The Authority has re-organized tenants' physical documentation in accordance with the new system.

10. IMPROPER STORAGE OF CRIMINAL OFFENDER RECORD INFORMATION (CORI) **21**

Our review noted that the Authority had haphazardly stored CORI information in the basement of the Agawam Senior Center, thereby violating the confidentiality of information received as well as the Authority's own CORI policy, which requires that CORI information be separate, locked, accessible only to authorized individuals, and destroyed after the applicant is accepted into the housing program or three years from the date of the applicant's rejection. In its response, the Authority indicated it has adopted policies to provide for the proper handling of CORI information.

11. QUESTIONABLE USE OF AUTHORITY ASSETS AND FUNDS **22**

Our audit revealed that the Authority experienced a steady and significant decline in its financial position as a result of poor administrative decisions made by its Board of Directors, which has not fulfilled its fiduciary responsibilities of adequately monitoring and reviewing Authority operations. Specifically, we noted: a) high personal usage of Authority cell phones; b) questionable gasoline card purchases; and c) inappropriate, unallowable, or inadequately supported expenditures of Authority funds. In its response, the Authority stated that the present Board not only understands its fiduciary responsibility for the overall proper administration of the Authority, but also realizes the importance of policies and guidelines to prevent such activities from happening again. The Authority further indicated that the present Executive Director has worked closely with DHCD not only to develop policies but also checks and balances to ensure that any improper activities will be addressed immediately. The Board will take an active role in monitoring the performance of these policies and guidelines.

12. INADEQUATE INVENTORY CONTROLS **26**

Our audit revealed that the Authority needs to strengthen its internal controls over furniture, equipment, tools, and supplies. We noted that it does not have policies in place regarding the addition or deletion of assets from its inventory listing. Specifically, our tests of the inventory list noted that the locations of assets were not reflected in the Authority's documentation, three of nine items did not have property identification tags, one item could not be located, and another had been sold according to a maintenance staff person; however, it still appeared on the listing. We also noted that the Authority does not conduct an annual physical inventory, and the last adjustment to its inventory listing was October 2004. In its response, the Authority stated that with the closing of the current fiscal year it will conduct a complete physical count of property and assets and record location, condition, and value. In addition, prior records will be reviewed to try and determine what items are missing or unaccounted for.

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Our review of the Authority’s pet policy indicated that the policy has not been approved by DHCD and is not in compliance with DHCD regulations. The Authority does not provide the activity or the interest earned by the pet security deposit account to each tenant. In its response, the Authority stated that the Board has adopted a DHCD-approved pet policy for all elderly/handicapped housing. The policy is consistent with and reflects all requirements of Chapter 151 and the Acts of 1989. In addition, interest has been calculated and returned to the tenants as best as could be determined.

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INTRODUCTION

Background

The Agawam Housing Authority manages 242 units in three state-aided housing programs. The Authority's staff consists of an Executive Director, three full-time administrative staff, and three full-time maintenance staff. Our audit, covering the period October 1, 2004 to December 31, 2006, found a complete breakdown in internal accounting and administrative controls at the Authority. Conditions had significantly deteriorated since our prior audit, and if not improved will continue to undermine the financial stability and solvency of the Authority. The extent of the Authority's problems was unknown until the Department of Housing and Community Development (DHCD) issued a Special Scope Review Report dated October 31, 2005. DHCD's review identified a number of policy, maintenance, and programmatic deficiencies among the Authority's administrative practices and housing program management. Significant DHCD findings included:

- Missing fundamental policies, including by-laws and management, personnel, and procurement policies.
- Informal administrative practices, such as personnel records management, that negatively impacted the finances of the Authority. The Authority could not accurately account for vacation and personnel leave accrual or sufficiently track overtime costs due to inadequate personnel records.
- Undeveloped capital and preventive maintenance policies that contributed to health and safety violations and insufficient property maintenance.
- Operating reserves were not spent in the most effective manner because the Authority did not have comprehensive maintenance plans.
- Instances of improper tenant selection, income documentation, and violations of Criminal Offender Record Information (CORI) regulations.

Our audit found that many records were missing, and records that were available—such as those for tenants, payroll expenditures, bank accounts, checkbooks, check registers, and inventory—were incomplete, inconsistent, or improperly maintained, indicating questionable practices and serious income-reporting, legal, and accountability issues for the Authority. The Authority must recognize that it is responsible for its financial and physical condition and the safety and security of its tenants and employees. It is the responsibility of Authority management, not auditors, to manage, prepare,

maintain, and correct books and records. The responsibility of auditors is to verify whether management's representations in its books and records are reliable, complete, and accurate.

According to generally accepted government auditing standards (GAO-03-673G, Chapter 1, Roles and Responsibilities), management must establish and maintain internal controls, as follows:

Officials of the audited entity (for example, managers of a state or local governmental entity or a nonprofit entity that receives federal awards) are responsible for...establishing and maintaining effective internal controls to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed...

With the cooperation of the current Executive Director (hired in January 2007), Board Chairmen, and Department of Housing and Community Development (DHCD) officials, we identified many serious and significant internal control, financial, accounting, and management weaknesses that continued to arise throughout our audit. The current Executive Director and Board Members have subsequently addressed many of those issues by initiating remedial action decisively and deliberately.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain activities of the Agawam Housing Authority for the period October 1, 2004 to December 31, 2006. The objectives of our audit were to (1) assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and (2) evaluate the Authority's compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included audit tests and procedures that we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with DHCD regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.

- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and uncollectible tenant accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and ensure that selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract-procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify whether the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to assess the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Modernization awards to verify that contracts were awarded properly and funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- DHCD's Special Scope Review dated October 31, 2005.

Based on our review, we have concluded that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in inappropriate expenditures, uneconomical practices, and the mismanagement of its housing programs during the 27-month period ended December 31, 2006.

AUDIT RESULTS

1. RESULTS OF INSPECTIONS – NONCOMPLIANCE WITH STATE SANITARY CODE

The Department of Housing and Community Development's (DHCD) Property Maintenance Guide, Chapter 3(F), requires that inspections of dwelling units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code.

A DHCD report dated September 30, 2005 disclosed that 42 out of 242 units were randomly selected and failed inspection. A follow-up report dated June 27, 2006 noted that very little progress had been made in addressing the numerous health and safety violations cited in the prior report; in fact, 38 of the same 42 units again failed inspection. Violations of either the health and safety standards or lease agreement included:

- Missing handrails in basement stairwells
- Open attic hatches between units
- Hot water exceeding safe temperatures
- Hazardous clothes dryer installation
- Broken basement windows
- Missing electrical connectors under garbage disposals
- Inoperative emergency lighting
- Faulty or inoperative windows in living areas
- Hazardous and illegal bedrooms in basements
- Missing smoke detectors
- Flammables stored near furnaces
- Tenant's belongings blocking means of egress
- Excessive unit clutter
- Unapproved pets

Annual unit inspections are an important aspect of property maintenance. During annual inspections, authorities can assess unit conditions, lease compliance under 760 CMR 6.06, and generate work orders. DHCD requires authorities to keep annual inspection reports on file; however, annual inspection reports could not be located in the Authority's files. Authority personnel informed us that annual inspections had not been performed in the last several years.

Our March 28, 2007 inspection of six housing units at the Authority's 200 Development at Brady Village noted 13 instances of noncompliance with Chapter II of the Sanitary Code, including missing baseboard heat covers, crumbling walls, water stains on walls and ceilings, cracked electric switch plate covers, missing smoke detectors, broken seals on windows, and missing stair handrails. We noted that the inspected units have been vacant for long periods of time, and none of these problems have been addressed.

<u>Unit #</u>	<u>Date Unit Vacated</u>
5D Brady Village	January 7, 2006
1B Brady Village	Authority could not provide date
2D Brady Village	May 3, 2006
3B Brady Village	November 30, 2005
8A Brady Village	Authority could not provide date
11C Brady Village	October 31, 2006

Despite these long-standing conditions, the former Executive Director responded to our survey questionnaire and claimed that the Agawam Housing Authority had no units that needed modernization funds. DHCD granted two site improvement awards totaling \$44,000 to the Authority in December 2002 for the purpose of upgrading lighting, fencing, and landscaping at the Brady Village Development. The Authority never responded to DHCD's award letter with a required project plan, and an August 20, 2003 reminder letter was sent, which included directions on how the Authority could access the funds after drafting and receiving DHCD

approval for its project plan. Once again, the Authority did not take the actions necessary to obtain the much needed improvement funds.

The photographs presented in Appendix II illustrate the need to address the conditions noted, since eligible persons have long been denied housing in these units and the Authority's loss of potential income has had a detrimental effect on operating reserves. Also, postponing the necessary improvements would require greater costs at a future date and may result in the properties not conforming to minimum standards for safe, decent, and sanitary housing.

Recommendation

The Authority should apply for funding from DHCD to address the issues noted during our inspections of the interior (dwelling units) and exterior (buildings) of the Authority, as well as other issues that need to be addressed. Moreover, DHCD should obtain and provide sufficient funds to the Authority in a timely manner so that it may provide safe, decent, and sanitary housing for its tenants.

Additionally, the Authority must ensure that it conducts annual inspections of all housing units and maintains copies of the related inspection reports in its files. The annual inspections should be used by the Authority to assess unit conditions, lease compliance, and generate work orders as necessary.

Auditee's Response

The Authority has applied for and received over the last eight months from DHCD over 1.5 million for emergency capital improvements for interior and exterior work. At present the Authority continues to partner with DHCD to provide safe, decent and sanitary housing for its tenants. In addition the Authority's Board of Directors have adopted policies that require annual inspection of all units. These inspections will help identify possible potential problems and ensure lease compliances. Copies of the annual inspections will be kept in our files.

2. IMPROVEMENTS NEEDED REGARDING VACANCY TURNAROUND TIME

Our review of the Authority's vacant unit turnaround time disclosed that the Authority had excessive delays in preparing vacated apartments for occupancy and may have lost the opportunity to earn approximately \$57,287 in potential rental income because it did not prepare and fill units on a timely basis. Specifically, it took the Authority an average of 155 days to prepare and fill the vacant units, well beyond the recommended 21 days as defined by the Department of Housing and Community Development (DHCD) guidelines for maintenance.

There were 47 units with excessive vacancies during the audit period October 1, 2004 to December 31, 2006. Six units have been vacant for over a year and one unit has been vacant for over two years. Also, 22 vacant units filled by the Authority took an average of 25 additional days to be reoccupied from the date they were ready for occupancy. As of March 31, 2006, 17 (36%) of the 47 units still required refurbishment. Details of the vacancies are as follows:

<u>Program</u>	<u>No. of Units</u>	<u>Total Days Vacant</u>	<u>Days in Excess of DHCD Guidelines</u>	<u>Loss of Potential Rental Income</u>
667	40	5,930	5,090	\$42,960
200	6	1,611	1,485	11,137
705	<u>1</u>	<u>273</u>	<u>252</u>	<u>3,190</u>
Total	<u>47</u>	<u>7,814</u>	<u>6,827</u>	<u>\$57,287</u>

DHCD's Property Maintenance Guide, Chapter 1, states, in part:

One primary responsibility of your LHA [Local Housing Authority] is to reoccupy vacancies as fast as possible. Every day a unit is vacant is a day of rent lost. Vacancies also invite vandalism and signal trouble if they linger. It is particularly important, therefore, to have vacancy refurbishment as a high priority in the assignment of work to your staff. Since this work does not have an "advocate" (e.g. an occupant asking for the work to be done), it can be easy to abandon work in progress on a vacancy when other residents make maintenance requests. This must be resisted. One of the ways to do this is to have someone on your LHA staff be the insistent voice reminding everyone of the importance of completing the vacancy work.

DHCD believes a reasonable outside limit for turning around vacancies is 21 working days where notice has been given. The maintenance portion of the vacancy process should not take longer than 14 days. DHCD requires your vacancy ledger to document the reasons for vacancy periods of longer than 21 days.

By not complying with DHCD's 21-day unit turnaround requirement and not maintaining accurate waiting lists, the Authority has adversely affected its overall financial condition and delayed state subsidized housing for its elderly and family applicants. (See Audit Result No. 8.)

Recommendation

The Authority should implement procedures to ensure that all vacant units are occupied within DHCD's 21-day timeframe to provide housing to eligible applicants in a timely manner and to earn much needed additional revenue.

Auditee's Response

The Authority has implemented procedures to ensure that all vacant units are occupied within DHCD's 21 day time frame. At present, all Program 667 units are occupied, all Program 705 units are occupied and 17 units of Program 200 are presently awaiting renovations, for which DHCD has provided funding. It should also be noted that during [...] the audited period, DHCD had froze the Authority's ability to rent units due to the findings contained in [their] scope audit dated September 30, 2005. Current vacancies are as follows:

<u>Dev. I.D.</u>	<u>Dev. Name</u>	<u>Occupied</u>	<u>Percent of Total Occupied</u>	<u>Vacant</u>	<u>Percent of Total Vacant</u>	<u>Dev. Vac. Percentage</u>
200-1	Brady Village	27	12.11%	17*	85.00%	62.96%
667-1	Country View	40	17.94%	0	0.00%	0.00%
667-2	Colonial Haven	52	23.32%	0	0.00%	0.00%
667-3	Meadowbrook Mnr	64	28.70%	0	0.00%	0.00%
667-4	Danahy Schoolhse	33	14.80%	3**	15.00%	9.09%
705-1	Wade Village	7	3.14%	0	0.00%	0.00%
	Totals	223	100.00%	20	100.00%	8.97%

*Units awaiting rehabilitation

**Congregate Units

3. CONTROLS OVER TENANT ACCOUNTS RECEIVABLE BALANCES NEED STRENGTHENING

The Authority's fiscal year 2006 financial statements revealed a growing increase in its tenant accounts receivable balance from \$24,077 in fiscal year 2004 to \$63,935 as of September 30, 2006. We noted that the Authority did not actively monitor amounts due from tenants and may have experienced revenue losses as a result of inaccurate receivable balances. The inaccuracies in the tenant accounts receivable balances were due, in part, to incorrect rent determinations and improper postings to the Authority's rent rolls. (See Audit Result No. 9 for further details.) Also, our review of Board minutes revealed that there was no Board approval of tenant accounts receivable write-offs, totaling \$31,042.

The tenant accounts receivable balances and write-offs were made without Board approval. However, they were reflected on the Authority's financial statements, as follows:

<u>Fiscal Year Ended</u>	<u>Tenants Account Receivable</u>	<u>Write-Offs</u>
9/30/04	\$24,077	\$ 3,007
9/30/05	\$34,550	\$10,569
9/30/06	\$63,935	-
9/30/07 (thru 3/07)	\$43,367	\$17,466
		<u>\$31,042</u>

DHCD's Accounting Manual for State-Aided Housing Programs, effective June 30, 2004, Section 6 identified the following procedures for determining a collection loss:

The balance in this account represents the estimated expense to cover unexpected losses for tenant rents. Under GAAP, LHA's should not use the direct write-off method but shall adopt the allowance method for uncollectible rents. Once the allowance method is adopted, all collection losses approved to be written (off) by the Board and according to DHCD policy shall be charged against account 1123 (allowance for doubtful accounts - tenant rents). Additionally, any subsequent collection of an amount that has been written-off shall be credited to account 1123. The balance in this account is normally the difference between the general ledger balance of account 1123 just prior to determining the annual allowance for doubtful accounts as computed at the end of the year.

Also, DHCD's fiscal year 2005 and fiscal year 2006 Budget Guidelines state, in part:

LHAs must base such collection write-offs on the following criteria:

- (1) The LHA has adopted and is complying with an aggressive rent collection policy (i.e. late notice, dunning notice, notice to quit, opportunity for discussion where applicable, etc.);*
- (2) A tenant has vacated for at least one year, and the LHA's diligent pursuit of arrearages has been unsuccessful (documentation of collection efforts must be submitted with request to write-off);*
- (3) A tenant dies and the account is uncollectible from the estate. The LHA through its counsel, if applicable, should immediately contact the Probate Court in its county to file a claim against the estate of the deceased tenant. The staff of the Probate Court will assist in this effort should LHA staff have questions; and*
- (4) Dormant (no activity in 12 months) vacated tenant accounts receivables which exceed two (2) years may remain on the authority's books only if the LHA can show just reason for it. Those vacated tenant accounts receivables which are over 18 months old, which are not written off, must have a written explanation in the file of why they are remaining on the active accounts receivable ledger.*

As a result of incorrect rent determinations and inaccurate postings to the rent rolls, the Authority has and will continue to experience revenue losses leading to a further decline in the already low operating reserves.

Recommendation

The Authority should identify any tenant accounts receivables that are uncollectible, obtain Board approval, and ensure that its Fee Accountant makes the proper accounting entries as required in DHCD's Accounting Manual.

Auditee's Response

The Authority has adopted and is complying with an aggressive rent collection policy (i.e. late notices, dunning notices, notices to quit-and opportunity for discussion where applicable). Below is the latest Fee Accountant's Compilation report. It should be duly noted that balances over 60 and vacated represents prior Authority Executive Director and Board Management.

<u>Aging</u>	<u>705</u>		<u>200</u>		<u>667</u>		<u>Total accts.</u>	<u>Total owed</u>
	<u># of Accts.</u>	<u>Amount</u>	<u># of Accts.</u>	<u>Amount</u>	<u># of Accts.</u>	<u>Amount</u>		
1-30 days	0	0.00	0	0.00			0	0.00
31-60 days	0	0.00	0	0.00	0	0.00	0	0.00
OVER 60 days	2	5926.00	5	11475.08			7	17401.08
VACATED	0	0.00	3	8538.70	2	14021.45	5	22560.15
TOTAL	2	5926.00	8	20013.70	2	14021.45	12	39961.23

4. OPERATING RESERVES SIGNIFICANTLY BELOW THE MINIMUM RECOMMENDED LEVEL

The Authority has experienced a steady decline in its operating reserves due to questionable decisions made by its former Board and Executive Director. Moreover, we determined that the Board approved numerous questionable payments (see Audit Results Nos. 6, 7, and 11) and did not fulfill its fiduciary responsibilities to provide adequate oversight of Authority operations, resulting in an operating reserve balance below the DHCD-recommended minimum level. As a result, the Authority may not have the financial resources necessary to fund emergency situations or maintain the current level of services provided.

The Authority's operating reserves have declined as follows:

<u>Date</u>	<u>Balance</u>
October 1, 2002	\$262,488
October 1, 2003	211,681
October 1, 2004	174,671
October 1, 2005	83,716
October 1, 2006	75,229

It should be noted that the October 1, 2005 and October 1, 2006 balances are below DHCD's suggested minimum level of \$121,000 by \$37,284 and \$45,284, respectively.

Prudent business practices advocate that the Authority should have sufficient reserves to pay for any unforeseen expenses. Moreover, DHCD's Accounting Manual, Section 14 states, in part:

DHCD believes the one true indicator of the financial status of a management program is a correctly calculated operating reserve. Operating reserve is not just the combination of unrestricted and restricted net assets but is calculated by adding certain GAAP expenditures to the total of these two balances. . . . The purpose of the operating reserve is threefold. First, the operating reserve allows LHAs to have funds necessary for cash flows. Some months more cash is paid out than is received and it is therefore necessary to have additional cash to meet these needs. Second, LHAs must have reserve funds to meet emergency situations such as major boiler or roof repairs that have not been anticipated in the budget. Third, the operating reserve is used to fund non-routine expenditures such as the replacement of refrigerators and ranges. DHCD has established full and minimum balances for operating reserves that act as benchmarks for LHAs to assess the relative value of their operating reserve balances. The problem in evaluating the operating reserve has always been the question of what is the true balance. The operating reserve actual balance is always some balance either positive or negative, but the true operating reserve balance requires an analysis of the balance sheet and an understanding of how balance sheet items affect operating reserve.

Further, DHCD's fiscal year (FY) 2005 and FY 2006 Budget Guidelines state, in part:

Level funding, combined with certain costs beyond the control of the authorities, have had a dramatic impact upon LHA operating reserve balances. Recognizing this, DHCD will approve in certain cases operating budgets that have fallen below the recommended 40% of full operating reserves. It is DHCD's anticipation that as the economy improves, LHAs will then be able to replenish their operating reserves to a satisfactory level. (Please note that the term maximum reserve has been replaced by the term full reserve.)

A letter dated August 18, 2005 from DHCD to the Authority's Chairperson states, in part:

The [Authority's] operating reserves have declined in recent years and the Department must determine that reserve funds are being expended appropriately.

DHCD's October 28, 2005 Special Scope Review states, in part:

Because the [Authority] does not have comprehensive maintenance plans, operating reserves have not been expended in the most effective manner.

The Authority's operating reserves have dwindled because the Board has not fulfilled its fiduciary responsibility for the overall proper administration of the Authority by establishing general policies and guidelines, approving contractual agreements, monitoring performance, and planning for future activities.

Recommendation

The Authority should adhere to DHCD's policies and guidelines to ensure that it has adequate reserve funds available for any unforeseen occurrences. The Board should take a more active role in providing oversight for Authority operations.

Auditee's Response

As noted in your audit report, the prior Board did not fulfill its fiduciary responsibility for the overall proper administration of the Authority by establishing policies and guidelines. The current Board is well aware of its fiduciary responsibility and in fact expects to end this fiscal year with a reserve balance of \$121,000 which is the suggested minimal level required by DHCD. In the future this Board will take an active role in providing oversight for the Authority. This includes developing a comprehensive maintenance plan to ensure the Authority has sufficient reserves as mandated by DHCD to meet emergency situations.

5. INADEQUATE CONTROLS OVER PAYROLL

Our review disclosed that the Authority was operating without an official written approved personnel policy and that neither the Executive Director nor the administrative staff prepared weekly timesheets. In addition, the system used to track employee leave balances did not meet DHCD standards. The Authority used post-it notes to record hours worked for each employee rather than a formal attendance report. We also noted that the Authority paid two administrative staff employees for compensatory time, even though administrative staff is prohibited from accruing compensatory time without approval from DHCD. Two members of the Authority's administrative staff received compensatory time payments of \$5,424 in February of 2006 and \$2,118 in October 2006, as follows:

<u>Employee</u>	<u>February</u>	<u>October</u>
A	\$3,260	\$ 975
B	<u>2,164</u>	<u>1,143</u>
Total	<u>\$5,424</u>	<u>\$2,118</u>

The Authority is required by the terms of DHCD's Contract for Financial Assistance to have an approved Management Plan that includes personnel regulations. DHCD's public housing notice—2002-05 Executive Director's Salary and Qualifications Schedule—effective July 1, 2002 states, in part:

Daily timesheets and attendance records for executive directors must be maintained at the LHA office for review by the Board, DHCD and the Office of the State Auditor.

Also, DHCD's Accounting Manual, Section 15(I) states, in part:

Formal attendance reports will be necessary to provide information for the preparation of payroll and to maintain adequate control of annual leave, sick leave, overtime, holiday work, and paid leave with respect to each employee.

DHCD's October 28, 2005 Special Scope Review states, in part:

Missing fundamental policies include by-laws, management, personnel and procurement policies. The lack of such policies means that the [Authority] is not operating in compliance with laws or Department regulations.

Informal Administrative practices such as personnel records management have negatively impacted the [Authority's] finances. Reviewers found that the [Authority] cannot accurately account for vacation and personal leave accrual or sufficiently track overtime costs because of inadequate personnel records.

Additionally, a letter dated October 1, 2006 from DHCD to the Authority's Chairperson states, in part:

We must emphasize again, a directive that has been conveyed both through correspondence and by phone to all [Authority] administrative staff and to you, and that is, that [the Authority's] administrative staff are prohibited from performing overtime work. Inasmuch, no compensation, either monetary or compensatory time in lieu of wages may be provided to the employees by the [Authority]. If there is a specific need for an [...] administrative staff member to perform overtime work in order to address day-to-day operation of the Authority, please contact your management specialist, to discuss the issue prior to any such work being performed.

We were unable to verify payroll costs because there is no supporting documentation such as timesheets (as noted earlier) and formal attendance calendars. Similarly, compensatory time balances could not be verified because of the inadequate system used to track employee time and attendance.

Personnel policies are necessary to instruct and give guidance for accurate maintenance of employee time and attendance, as well as compensatory time. Without personnel policies, there is potential risk of an unfunded liability that could adversely affect its operating reserves, which currently are below the required minimum balance of \$121,000 (See Audit Result No. 4). Without sufficient attendance records, there is inadequate documentation to support sick and vacation time earned and taken by its employees. Also, should an employee leave the Authority's employment, there would be no record of accrued time that may be due the employee.

Recommendation

The Authority needs to strengthen the controls over its payroll system by developing and implementing personnel policies that require employees to certify the accuracy of their timesheets and instruct management to review and approve employee timesheets in a timely manner. In addition, the Authority should improve oversight controls over its payroll records by: (1) requiring that employee attendance records be prepared, reviewed, and approved in a timely manner; (2) adopting procedures to ensure that all employee time records and accrued benefit records are adequately documented to substantiate employees' work hours and leave time for each pay period; and (3) reviewing and updating the Authority's payroll policies to include a policy that requires supervisory approval of all employee time records and accrued benefit records in a timely manner. Moreover, the Authority's Board of Directors should closely monitor the payroll process and authorize any changes or additions made to the Authority's personnel policies.

Auditee's Response

On June 12, 2007 the Authority received approval from DHCD to implement the following Policies which were submitted and approved by the Board of Commissioners on February 20, 2007:

- *By-Laws*
- *Personnel Policy*
- *Affirmative Action*
- *Admissions and Continued Occupancy*
- *Procurement Policy*

The approval of these policies allows the Authority oversight control over its payroll records including (1) requiring that employee attendance records be prepared, reviewed and approved in a timely manner, this includes the Executive Director, (2) procedures in place to ensure all employee time records and accrued benefit records are adequately documented to substantiate employee work hours and leave times for each pay period. The Board of Commissioners will closely monitor payroll policies and authorize changes or additions to the Authority into personnel policies as needed.

6. QUESTIONABLE PAYMENTS TOTALING IN EXCESS OF \$8,000

Our review of Authority records revealed over \$8,000 in questionable payments associated with a former administrative employee. These payments included \$2,900 for outside attorney services, \$3,375 for a psychological evaluation of the former employee, and \$1,727 for wages and accrued sick leave. These payments were not approved by DHCD, and the \$1,727 in wages was

in excess of what the former employee was entitled to based on available documentation, and these unallowable expenditures adversely affected the Authority's already low operating reserve.

The Authority was involved in a prolonged personnel dispute that resulted in an administrative employee's resignation. Because of the employee's employment history and civil service status, the Authority used the services of an outside counsel rather than utilizing the resources available through DHCD's risk management program to reach a settlement with the employee. Our review of payroll time and attendance records revealed that the Authority paid 20% (\$381) of the employee's undocumented accumulated sick leave estimated balance on the April 6, 2005 settlement date. The accumulated sick leave paid to the employee was made even though she was not entitled to the payment; employees are only paid 20% of their sick leave balance when they retire. The Authority also continued to pay an extra three weeks salary (\$1,346) through April 30, 2005 because it failed to take the employee off the payroll on the April 6, 2005 settlement date. Furthermore, we could not verify the accuracy of the sick leave accrued and payment made because there were no formal attendance records for the employee. (See Audit Result No. 5.)

Housing authorities are expected to contact DHCD's risk management program to assess potential litigation and provide assistance and resources as necessary in order to protect both the Authority's and the Commonwealth's interests.

The current Executive Director indicated he would go to the Board and DHCD for guidance should this situation arise in the future.

Recommendation

The Authority should seek repayment for the unauthorized expenditure of state funds in the execution of the employee's settlement agreement. Any funds recovered should be reinstated to the Authority's operating reserve account.

Auditee's Response

It should be duly noted that neither the current Executive Director nor Board of Commissioners were involved in this prolonged personnel dispute that resulted in an administrative employee's resignation and the subsequent payments made. The current Executive Director and Board of Commissioners understand that any such exposure for the Authority needs to be assigned to DHCD's risk management program, so as to assess potential litigation and provide assistance and resources in order to protect both the

Authority's and the Commonwealth's interest. While the Board respects the recommendation of your audit to seek repayment for the unauthorized expenditure it does not feel that such efforts would result in the recoupment of any revenue and is not in the best interest of the Authority at this time

7. QUESTIONABLE MANAGEMENT CONSULTANT CONTRACT

The Authority entered into a management consultant contract, dated December 1, 2000, with the former Springfield Housing Authority's Director of Leased Housing for professional services rendered in the performance of rent re-evaluations of the Authority's 242 residents for fiscal year 2001. The initial \$15,000 contract was approved by DHCD with an expiration date of May 1, 2001. After the contract expired, the Authority continued to pay for these consultant services, at the rate of \$50 per hour, without undertaking another procurement process or seeking alternate bids. The Authority did not seek or receive DHCD's approval to continue to pay the former contractor after the contract expired; therefore, the contract was invalid. During the period April 1, 2004 to May 30, 2005, the Authority paid this consultant approximately \$18,100 (we were not able to determine the exact amount because of missing invoices). The Authority ceased payments to this consultant after DHCD's May 2005 on-site review found them to be questionable.

Following DHCD's on-site review, the former Executive Director sent a letter to DHCD, dated June 8, 2005, stating that after the initial contract expired the Authority executed "agreements for services" and the consultant qualified as a "sole source provider" and was thus exempt from the procurement process outlined in Chapter 30B of the Massachusetts General Laws. DHCD responded that the services provided do not qualify as sole-source procurement and, without documentation of the procurement process, it was unable to determine that the extension agreements would qualify for the sole source exemption.

DHCD's Accounting Manual, Bidding Summary, Section 16-17, states, in part:

Contracts in excess of \$10,000 are subject to DHCD approval.

Additionally, we noted that the Authority does not have a DHCD-approved procurement policy to ensure that the Authority follows applicable procurement laws when contracting for services or purchasing materials.

Recommendation

The Authority should procure services according to Chapter 30B of the General Laws and DHCD policies by submitting contracts, supporting documentation, and by obtaining a certified Board vote for approval.

Auditee's Response

It should be duly noted that the current Executive Director and Board of Commissioners were not involved in the decisions to enter into the Management Consultant Contract referenced in this audit. As previously stated the Board has adopted and DHCD has approved a procurement policy for the Authority. This policy ensures that all procurement services are performed according to M.G.L. Chapter 30B and DHCD regulations.

8. NONCOMPLIANCE WITH TENANT SELECTION PROCEDURES

Our audit revealed that the Authority's tenant selection procedures were not in compliance with DHCD policies and regulations. More specifically, tenant applications, leases, and waiting lists were neither properly processed nor maintained. Consequently, eligible applicants may have been denied or delayed housing assistance.

Tenant Applications and Leases Not Processed or Maintained Properly

Our review of 19 applicants housed during the audit period October 1, 2004 to December 31, 2006 found several shortcomings regarding the application and tenant selection processes as follows:

- Applications were not stamped with the date and time.
- Applications did not contain reviewer signatures.
- Incomplete applications were given control numbers.
- Ineligible applicants were placed on waiting lists.
- Leases and lease addendums were missing in files.

760 CMR 5.05 states, in part:

(2) Each application form received by the LHA shall be date and time stamped, and the applicant promptly provided with a receipt including the control number. After a completed application form is received, the LHA shall make a preliminary determination of eligibility based on information in the form and shall also determine whether an applicant appears to be entitled to any preference or priority status. The LHA may at this time, in its discretion,

verify some or all information provided. The applicant shall be notified of the LHA's preliminary determination and may request a private conference if found ineligible or not to be entitled to a priority or preference category requested.

(3) When an applicant approaches the top of the waiting list, the LHA shall make a final determination of the applicant's eligibility and qualification. The applicant shall update the application and provide any additional information or verification reasonably required by the LHA.

Contrary to DHCD regulations, applicants were allowed to request specific developments (locations). When a unit became available, an applicant requesting that specific development, regardless of their control number, was offered the unit and given five days to accept. Also, new references and Criminal Offender Records Information (CORI) were not obtained prior to housing applicants; rather, original references and CORI from the date of application were used.

760 CMR 5.10 further states, in part:

(1c)...when a unit or rental assistance voucher becomes available, it shall be offered to the applicant for the applicable program with an appropriate household size who has the lowest control number in the highest preference category within the highest priority category.

760 CMR 5.12 states, in part:

(1) At the time of determining final eligibility and qualification, the LHA shall require an applicant to provide the LHA access to reliable and reasonably obtainable documentation verifying the accuracy of information appearing on the application form or otherwise necessary for the LHA's determination. Income of applicants shall be verified by the procedure specified for rent determination. If the LHA has verified any information when making a preliminary determination of eligibility for the applicant, the LHA shall re-verify such information on its final determination of eligibility and qualification. Non-receipt of requested documentation, without good cause established by the applicant, shall be cause for determining the applicant unqualified.

(3) In determining qualification the LHA shall check Criminal Offender Record Information...

Inaccurate Waiting Lists Maintained

Our review of the tenant selection process revealed that the Authority did not maintain the Master and Waiting List Ledgers properly as required by 760 Code of Massachusetts Regulations 5.00. Our comparison of the Master Ledger to the Waiting List Ledgers for the period October 1, 2004 to December 31, 2006 revealed 76 inconsistencies:

- 35 (46%) – Applicants deemed eligible on the Master Ledger were not included on the appropriate Waiting List Ledgers

- 27 (36%) – Incorrect priority recorded on Waiting List Ledger
- 3 (4%) – Applicants on the Waiting List Ledger but not on the Master List
- 3 (4%) – Applications deemed incomplete or not eligible on Waiting List Ledgers
- 1 (1%) – Incorrect application date on Waiting List Ledger
- 7 (9%) – Other errors, including applicants placed on wrong Waiting List Ledger

The Master and the Waiting List Ledgers, which determine the proper ordered placement of housing applicants in state-aided housing units, list all applicants and include a control number, the applicant's name, the date of application, and a matrix determining the applicant's priority and preferences for each applicant. The control number, along with the priority and preference status, is then recorded in the Waiting List Ledger, which should be current and from which the selection of the next eligible applicant is made for the vacant state-aided housing unit. Since the Master Ledger and the Waiting List Ledgers do not agree, it could not be determined whether eligible applicants were selected for housing in the proper sequence.

The Authority last updated its Waiting List Ledger in January 2004; however, the update did not include all applicants on the Waiting List because the Authority selected certain priorities and preference categories (local resident) among family and elderly/handicapped applicants. The Authority should have done a complete update for all applicants within a particular housing program.

760 CMR 5.14 states, in part:

The LHA shall update and reclassify all applications on file at least once in every three years in the following manner:

(1) The LHA shall contact each applicant:

(a) to determine whether or not:

- 1. applicant is still interested in obtaining housing through the LHA;*
- 2. the applicant is still preliminarily eligible;*
- 3. the applicant's preference and priority status remain the same;*
and

(b) to advise the applicant that a failure to respond will result in removal of the application from the waiting list. Any applicant, whose application is so removed from the waiting list shall be given notice of the removal and the right to request a private conference.

(2) The LHA shall review all updated information and may change its determination of preliminary eligibility and priority and/or preference status. The LHA shall notify each applicant of its determination and the right to request a private conference.

These noncompliance issues as well as how to properly post the Master Ledger and Waiting List were reviewed with the current Executive Director, who stated that the Authority is in the process of working with DHCD to improve its record keeping in these areas. He also indicated that the Authority purchased a new web-based software program that maintains the Waiting Lists and tenant information.

Recommendation

We commend the current Executive Director for taking steps to comply with the regulations. He should continue working with DHCD to ensure compliance with DHCD tenant selection regulations and that the Master and Waiting List Ledgers are maintained in accordance with DHCD requirements.

Auditee's Response

The Board commends the partnership established between DHCD and The Authority's staff that had resulted in a heroic effort that has brought all tenant selection procedures into compliance with DHCD regulations. In addition the Authority has purchased software which allows total control that will ensure the proper order of placement of housing applicants in addition to providing a check and balance system. The Authority's Master and Waiting List Ledgers are now up to date and in accordance with DHCD requirements.

9. RENT DETERMINATION DEFICIENCIES

Our review of 25 tenant files noted that 15 tenants were charged incorrect rents based on insufficient documentation of income and deductions claimed by tenants. In addition, the Authority did not have a copy of DHCD's Heat Allowance Schedule to substantiate the related deductions given to tenants.

760 CMR 6.04 (c), Response by the Tenant, states:

Within thirty (30) days following the date of the notice of redetermination, the tenant shall provide, under pains and penalties of perjury, sufficient, complete and accurate information for the LHA to make a reliable determination of the household's income, exclusions from income, and applicable deductions.

Recommendation

The current Executive Director should continue his efforts to comply with DHCD's rent determination regulations.

Auditee's Response

As stated above the purchase of software has allowed the Authority to gain control over all aspects of tenant selections, as well as rent determination. Prior to this software it was necessary to maintain various source documents in different locations. [This software] allows for all tenant information, including Worksheet Rent Calculations to be stored within the System under each tenant "file". Tenant paper "files" have been re-organized so that all files are consistent as to what and where documentation is to be found. We have recently finished the recertification process and all calculations were in compliance with DHCD regulations.

10. IMPROPER STORAGE OF CRIMINAL OFFENDER RECORD INFORMATION (CORI)

Our review noted that the Authority had haphazardly stored CORI information in the basement of the Agawam Senior Center, thereby violating the sanctity of information received. We also noted that the Authority is not in compliance with its own CORI Policy, which was adopted by the Board on January 19, 1993, which states, in part:

CORI shall be kept in a separate, locked file cabinet when not being used, CORI shall be destroyed when the applicant to whom it pertains has been housed. If an applicant has been determined ineligible for housing, the applicant's CORI shall be destroyed three (3) years from the date of the applicant's rejection, or after all administrative and judicial proceedings concerning the rejection are exhausted, whichever is later.

The language in the Authority's policy is exactly as stated in 803 CMR 5.00, Regulations Governing Request for and Use of CORI by Local Housing Authorities.

760 CMR 6.06, Provisions as to Certain Obligations of the LHA, states that the lease shall specify the following obligations of the LHA:

(4)(k) To preserve the confidentiality of records in accordance with and to the extent provided by 760 CMR 8.00 and other applicable laws.

Moreover, 760 CMR 8.04, Access to Personal Data, states, in part:

(2) Dissemination of Personal Data. A Holder shall not allow any individual, agency or entity not employed by the Holder or under contract or agreement with the Holder . . . under 760 CMR 8.04(1) to have access to personal data. . . .

The Commonwealth of Massachusetts is very protective of the privacy and confidentiality of the information gathered on individuals for the files of entities termed “holders,” such as the Authority. The Fair Information Practices Law (Chapter 66A, Section 2, of the General Laws) provides that every agency that holds personal data shall “identify one person who shall be immediately responsible for personal data and who shall ensure that the requirements of [Chapter 66A] for preventing access to or dissemination of data are followed.” The responsibilities are extensive, and violation of this law is punishable by the sanctions of Chapter 214, Section 3B, of the General Laws.

Also, the Fair Information Practices Act Statement of Rights signed by applicants states, in part:

The Authority collects information about applicants and tenants for its housing programs as required by law in order to determine eligibility, amount of rent and correct apartment size. When permitted by law, it may be released to government agencies, other housing authorities, and to civil or criminal investigators or prosecutors. Otherwise, the information will be kept confidential and used only by housing authority staff in the course of their duties.

Furthermore, CORI guidelines state that access to CORI by unauthorized individuals is prohibited.

Recommendation

The current Executive Director should continue his efforts to comply with DHCD’s CORI regulations, as well as the Authority’s own policies regarding CORI storage and access.

Auditee’s Response

The Authority has adopted the following: All CORI request and receipt are now web based. The CORI file is deleted when the applicant to whom it pertains has been housed. When an applicant is determined to be ineligible for Housing the applicant’s CORI is printed out and stored in a locked file cabinet for three years from the close of the applicant’s rejection or after all administrative and judicial proceedings concerning the rejection are exhausted.

11. QUESTIONABLE USE OF AUTHORITY ASSETS AND FUNDS

Our audit revealed that the Authority experienced a steady and significant decline in its financial position as a result of poor administrative decisions made by its Board of Directors, which has not fulfilled its fiduciary responsibilities of adequately monitoring and reviewing Authority operations. Specifically, we noted: a) high personal usage of Authority cell phones; b)

questionable gasoline card purchases; and c) inappropriate, unallowable, or inadequately supported expenditures of Authority funds.

a. Personal Use of Authority Cell Phones

Our review of cell phone bills during the period October 1, 2004 to December 31, 2006 found high personal usage with little or no monitoring. For example, a maintenance employee called a family tenant 64 times in one month. This socialization between an Authority employee and a tenant is strictly prohibited based on a March 26, 2004 memo to the maintenance staff from the Board of Commissioners that was signed by all maintenance employees.

The memo states, in part:

Personal relationships and socialization between tenants, vendors, and employees are strictly prohibited during working hours and overtime. Personal relationships and socialization between tenants, vendors, and employees after business hours is strongly discouraged.

Also, DHCD 2005 and 2006 Budget Guidelines state:

Cell Phones: The use of cellular phones has increased greatly at LHAs over the past few years. This has happened with few, if any, "ground rules" concerning their use. A few basic rules will now need to be applied to the use of such phones.

- i. Employee access will need to be approved by the board.*
- ii. Use should be work related only. In instances where there are charges due to personal calls reimbursement must be made by the user to the authority.*
- iii. An itemized bill will need to be received and signed by the employee using the cell phone.*
- iv. There should be a statement attached to the bill, where the employee signs and attests to the fact that no personal phone charges have been made by him/her on the phone, and that all personal charges have been reimbursed to the authority.*

b. Questionable Gasoline Purchases

Our review of gasoline card purchases found that the Authority spent in excess of \$14,000 for 6,480 gallons of gasoline. Based on the number of gallons of gasoline purchased, we estimated that the Authority's maintenance truck should have traveled over 100,000 miles, when it actually traveled 46,215 miles. We also noted that a maintenance employee purchased over 800 gallons of gasoline at a cost in excess of \$1,784 with his assigned gas card, while according to the

payroll records/time sheets he was reported as sick, on vacation, or not on call. Many purchases were made at locations far from Agawam, including Orange and Gardner. On April 11, 2005 the maintenance employee requested that \$40 be withheld from his pay for using the Authority gasoline card for his personal use.

We also noted that maintenance employees had been allowed to take the Authority's truck home when they were on call (commencing prior to our audit period) until the practice was stopped by a Board vote on October 18, 2004. One maintenance employee traveled 102 miles roundtrip from Agawam to his home in Orange (no record of number of trips) in the Authority truck. Contrary to Internal Revenue Service (IRS) regulations, the Authority did not report the value of the vehicle's personal use as a taxable fringe benefit on the Forms W-2 issued to the maintenance staff.

IRS Regulation 713, Fringe Benefits, which discusses the tax effect of personal use of company automobiles, states, in part:

The benefits may be included as income to the extent the employee uses them for personal purpose.

c. Inappropriate, Unallowable, or Inadequately Supported Expenditures of Authority Funds

We also noted numerous questionable expenditures that were either inappropriate, unallowable, or lacked supporting documentation.

Specifically, we noted the following questionable expenditures:

- The former Executive Director was reimbursed \$453 for his personal cell phone bills without proof that the charges were directly related to state-aided housing units.
- During the period September 2005 to March 2006, the Authority paid \$70 in mental health co-payments for the former Executive Director.
- The former Executive Director was reimbursed approximately \$200 that was charged to his personal credit card for staff luncheons.
- On February 9, 2005 the former Executive Director held a retirement party for a Board member. On the same day, the former Director requested reimbursement from the Authority for \$230 for the cost of the food and a gratuity. The Authority paid this amount on February 23, 2005 from the travel account.

- In December 2005, the former Executive Director instructed office staff to order two air blowers for approximately \$360. When the blowers were delivered, the former Executive Director instructed the maintenance staff to put them in his personal vehicle so he could bring them home where they were to be used. On June 29, 2006, the Board sent the former Director a letter asking that the blowers be returned. On July 13, 2006 the Authority's attorney sent a letter to the former Director's attorney, stating:

As we discussed previously, the Agawam Housing Authority is in receipt of information regarding two blowers which [...] purchased with Authority funds and then had members of the maintenance staff place them in his car. If the Housing Authority does not receive these blowers at the Housing Authority by 4:00 p.m. on Friday, July 14, 2006, an application for a Criminal Complaint will be filed against [...] for larceny.

Neither the Authority's nor the Board's attorneys followed through with filing an application for larceny and the matter was dropped by the Board.

- The Authority paid for two telephone lines that did not belong to them. One line was a switched toll free number in Canada that the Authority has been paying for since December 1, 2001. The other line belongs to a private citizen but the Authority has been paying for it since July 23, 2003. When brought to the attention of the Authority's Office Manager, she contacted the Telephone Company and both lines were disconnected. Also, the Authority is actively seeking a refund for these charges.
- Two Board members traveling to a National Association of Housing and Redevelopment Officials (NAHRO) conference received reimbursement for tolls, contrary to DHCD FY 2005 Budget Guidelines. In addition, one Board member received reimbursement for gratuities and one Board member received reimbursement for supper in excess of DHCD's allowable amount.

DHCD's FY 2005 Budget Guidelines state, in part:

Private auto mileage incurred in the course of authority business, is reimbursable at the rate of twenty-eight cents (\$0.28) per mile. Such rate is generally inclusive of tolls and parking fees. Reimbursement for tolls and parking is allowed if the traveler takes these actual costs in lieu of any mileage reimbursement.

In addition, DHCD's FY 2005 and 2006 Budget Guidelines state, in part:

Reimbursement for meals is allowed if the following criteria are met:

Supper: Travel must end at 7:00 p.m. or later - \$12.00 maximum allowable.

In summary, the following items are not allowable as reimbursement from state funds:

- payment for meals in excess of allowable amounts

- Office and maintenance staff requested and were paid travel expenses on days off and weekends.
- The Authority paid \$50 for a maintenance employee's personal parking ticket. This employee parked in a tow-away zone while in a meeting with the Authority's attorney. The Authority also incurred late charges due to the fact that the ticket was received on July 28, 2004 and was not paid until October 18, 2004.

Collectively, the issues noted above contributed to the steady and significant decline in the Authority's financial position. The Authority's Board has not fulfilled its fiduciary responsibility for the overall proper administration of the Authority by establishing general policies and guidelines, monitoring performance, and planning for future activities.

Recommendation

The Authority should adhere to DHCD policies as well as amend its own policies and procedures relative to reviewing expenses for allowability and accuracy before payment. DHCD and its legal counsel should review the propriety of these questionable expenditures, and reimbursement should be sought for any payments DHCD deems to be improper. Also, in light of the questionable disbursements and other matters discussed in this report, DHCD may again need to take a more active role in monitoring the Authority's activities. Furthermore, the Authority needs to ensure that it adheres to IRS regulations by including personal use of Authority vehicles on the employees' W-2 forms.

Auditee's Response

As previously stated the present Board not only understands its fiduciary responsibility for the overall proper administration of this Authority. The Board also realizes the importance of policies and guidelines to prevent such activities from happening ever again. The present Executive Director has worked closely with DHCD to develop not only policies but Checks and Balance systems to ensure that any improper activities will be addressed immediately. The Board will take an active role in monitoring the performance of these policies and guidelines.

12. INADEQUATE INVENTORY CONTROLS

We found a lack of internal controls and accountability over the Authority's furniture, equipment, tools, and supplies, and further noted that the Authority does not have any inventory policies in place. Our tests of the Authority's inventory list noted that the locations of assets were not reflected on the list, three of nine items did not have property identification tags, one item could not be located, and a tractor valued at \$5,734 had been sold according to an Authority

maintenance staff person even though it still appeared on the listing. We also noted that the Authority does not conduct an annual physical inventory, and has not made any adjustments to its inventory listing since October 2004.

DHCD's accounting manual for state-aided housing programs, Section 15, requires authorities to account for all inventory additions or deletions as well as update the physical listing on an annual basis. DHCD requires that a formal system for the inventory of furniture and equipment be established by all LHAs. Additionally, Section 15, page 9, states:

The inventory procedures are as follows: 1) Establish Furniture and Equipment Record Cards or use an automated system; 2) Tag all equipment with an inventory tag with an assigned asset number; 3) Take an inventory once a year.

Section 15, page 10, states:

Procedures for Tagging and Local Furniture and Equipment: 1) A tag shall be affixed securely on an easily accessible surface of each item of recorded non-expendable equipment. Each tag will display the housing authority's name as well as a numerical figure; 2) The issuance of the tags will be controlled by the Accounting Department and must be reserved for each item at the time of ordering equipment. Procedures for Inventory of Furniture and Equipment: 1) A physical inventory of all Furniture and Non-expendable Equipment must be taken and an inventory list maintained each year; 2) Physical inventory results must be compared to equipment record and any differences and discrepancies will be reviewed by the LHA for possible adjustments.

The deficiencies were due to the Authority's lack of policies and procedures regarding inventory and management's disregard for the importance of a well-maintained inventory system.

Accordingly, there is a lack of internal controls and accountability over furniture, equipment, tools, and supplies. Therefore, the Authority is unable to demonstrate or determine what assets it has, the location of these assets, or to what extent items may have been lost, stolen, removed from the Authority's property, or discarded due to their condition. Since the Authority's inventory was not up to date, the accuracy of the \$63,440 value reflected on its general ledger and financial statements cannot be determined.

Recommendation

The Authority should:

- a. Establish written inventory policies.
- b. Conduct a complete physical count of its property and assets and record location, condition, and value, and apply an asset number to items missing tags.

- c. Review all purchases made during the last 27 months to determine what it has in its possession, determine what it should actually possess, and ascertain what is missing or unaccounted for.
- d. Maintain a perpetual inventory record for all assets in order to ensure that controls are in place to safeguard and properly account for those assets.

Auditee's Response

With the closing of the current fiscal year the Authority will conduct a complete physical count of its property and assets, noting location, condition and value. Any missing asset tags will be applied. This count will be compared to the book value and adjusted. In addition we will review prior records to try and determine what items are missing or unaccounted for. Each fiscal year this physical inventory will be taken to compare to the G/L Balance.

13. PET SECURITY DEPOSITS NOT IN COMPLIANCE WITH DHCD REGULATIONS

Our review of the Authority's pet policy indicated that the policy has not been approved by DHCD and is not in compliance with DHCD regulations. The Authority does not provide any information regarding the activity or the interest earned by the pet security deposit account to tenants and in addition, the Authority is not doing anything with the interest earned from this account. The Authority's policy states:

pet deposits will be returned to tenants when [the Authority] receives proof they no longer have the pet or when they move out, minus a mandatory de-fleeing charge

However, DHCD stated in its Special Scope Review that the Authority cannot charge tenants a mandatory de-fleeing charge if pest control services are not required when the pet is no longer in the residence.

Our review of the bank statements, bankbook, and trial balance listing of tenant deposits indicated that the Authority is not reconciling the balances. The balances as of September 30, 2006 were as follows: bank passbook \$4,375, bank statement \$4,218, and trial balance \$3,558. Due to the poor condition of the Authority's records, we could not accurately determine which balance is correct.

760 CMR 6.07 states:

Each housing authority shall have a pet policy for its elderly/handicapped housing. The policy should be consistent with and reflect the requirements in Chapter 151 of the Acts of 1989, DHCD regulations and the pet guidelines.

Massachusetts General Laws Chapter 186, Section 15B, states:

Security deposits must be maintained in a separate bank account and that must provide tenants with the name and location of the bank in which the security deposit has been deposited as well as the amount and account number of the deposit account.

At the informal exit conference, the Executive Director stated that he felt it was part of the Fee Accountant's responsibilities to reconcile the pet account and that he has instructed the Fee Accountant to do so. New policies are in place and the interest earned on the account will be donated to MSPCA.

Recommendation

The Authority should review their pet policy, revise as necessary, and obtain DHCD approval. All pet owners should be brought up to date on their deposits. We commend the Authority for its efforts to revise the policy and donate the interest earned on the account to the MSPCA, and further recommend that the Authority continue to donate the interest or give the interest back to tenants. The Authority should also reconcile the balance in the bank account to the bankbook and general ledger.

Auditee's Response

The Board has adopted and DHCD has approved a pet policy for all elderly/handicapped Housing. The policy is consistent with and reflects all requirements of Chapter 151 and the Acts of 1989. In addition interest has been calculated and returned to the tenants as best as could be determined. Bank Balances have been reconciled to the G/L and will be part of each monthly close.

APPENDIX I

STATE SANITARY CODE NONCOMPLIANCE NOTED

200 - Development

<u>Location</u>	<u>Noncompliance</u>	<u>Regulation</u>
5D Brady Village	Kitchen – Baseboard Heat Covers Missing	105 CMR 410.351
	Bedroom – Wall Crumbling Due to Water Leak	105 CMR 410.500
1B Brady Village	Living Room – Cracked Electric Switchplate Cover	105 CMR 410.351
	Kitchen – Broken Window	105 CMR 410.501
	Kitchen - Trash	105 CMR 410.602
2D Brady Village	Living Room – Missing Smoke Detector	105 CMR 410.482; MGL C.148 S.26B
	Basement – Heating Pipe Insulation Falling Apart	105 CMR 410.353
8A Brady Village	Entire Unit – Missing Baseboards	105 CMR 410.505
	Living Room – Missing Smoke Detectors	105 CMR 410.482; MGL C148 S26B
	Bedroom – Water Stains on Walls and Ceiling	105 CMR 410.500
	Bedroom – Window Condensation	105 CMR 410.501
11C Brady Village	Entire Unit – Trash and Furniture left Behind	105 CMR 410.602
	Basement Stairs – No Handrail	105 CMR 410.503

APPENDIX II
PHOTOGRAPHS OF CONDITIONS FOUND

200 Development Brady Village
Unit 1B Broken Window



Unit 1B Switch Plate Missing



Unit 2D Insulation Coming off Pipes and Improperly Vented Dryer



Unit 5D Baseboard Heat Cover Missing



Unit 5D Wall Crumbling



Unit 8A Smoke Detector Missing



Unit 8A Water Stains on Wall and Ceiling



Unit 8A Window Condensation



Unit 11C Trash Left in Basement



Haphazard Storage of Authority Records



Authority Records in Water



Haphazard Storage of Authority Records

