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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
ASHLAND HOUSING AUTHORITY
JANUARY 1, 2005 TO MARCH 31, 2007**

**OFFICIAL AUDIT
REPORT
SEPTEMBER 19, 2007**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Ashland Housing Authority for the period January 1, 2005 to March 31, 2007. 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 on our review, we have concluded that, except for the issue addressed in the Audit Results section of the report, during the 27-month period ended March 31, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESOLVED - NONCOMPLIANCE WITH RENT REDETERMINATION REGULATIONS

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Our prior audit report (No. 2005-0601-3A) revealed that three of nine tenant files tested did not factor in the wage exclusion for tenants age 62 and older allowed under 760 Code of Massachusetts Regulations 6.05(3)(p) in the calculation of rents. As a result, three tenants were overcharged a total of \$2,883. Subsequent testing by the Authority revealed that two other tenant files contained the same error, resulting in overcharges of \$3,004. The Authority has since credited the five tenants' accounts for these overcharges.

During our current audit, we reviewed rent computations for 15 tenants and found that the tenants were given the earned income exclusion, however, we found a mathematical error in the calculation of one tenant's income which resulted in an overcharge of \$252. We brought this matter to the attention of the Executive Director, who subsequently credited the tenant's account. Moreover, the Executive Director indicated that rental calculations have been reviewed to ensure there were no further mathematical errors.

2. IRS 1099-MISC INCOME INFORMATION FORM NOT PREPARED FOR CERTAIN AUTHORITY CONTRACTORS

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Our review determined that the Authority did not issue Internal Revenue Service (IRS) Form 1099-MISC to three contractors who were paid \$20,020 during calendar year 2005 and two contractors who were paid \$13,735 during calendar year 2006 for their services. For each contractor paid over \$600 during a calendar year, IRS regulations require entities to prepare and file with the IRS a 1099-MISC form that details the name of the contractor, federal reporting number, and amount paid. The Authority indicated that it has taken corrective action regarding this matter.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Ashland Housing Authority for the period January 1, 2005 to March 31, 2007. 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 assess its 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 such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD's 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 verify that rent collections were timely and that uncollectible tenants' accounts receivable balances were written-off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- 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 that 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 that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2005-0601-3A).

Based on our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 27-month period ended March 31, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESOLVED - NONCOMPLIANCE WITH RENT REDETERMINATION REGULATIONS

Our prior audit report (No. 2005-0601-3A) of the Ashland Housing Authority revealed that tenant files for the period June 1, 2002 to December 31, 2004, did not comply with 760 Code of Massachusetts Regulations (CMR) 6.05(3)(p), Exclusions from Gross Household Income, which states that income shall not include:

Wages and/or salary earned by a tenant age 62 or older, or other household member, age 62 or older, not to exceed the total amount which would have been earned by a person working 20 hours per week at the minimum wage specified in M.G.L. c 151.s. 1.

The amount excluded from income for wages can be as follows: (20 hours per week, times minimum wage, times 52 weeks).

Specifically, our prior review revealed that three of nine tenant files tested did not factor in the earned income exclusion when calculating rents. Consequently, these three tenants made rental overpayments totaling \$2,883.

The Executive Director indicated that DHCD did not inform her that the wages of tenants age 62 or older should be excluded, and that she followed the guidance of a previous DHCD Management Representative who computed rents without factoring in this exclusion.

The Authority issued credits to the three overcharged tenants and subsequently conducted its own review, and found that two additional tenant files contained the same rental calculation error. The Authority has issued these tenants additional credits of \$1,372 and \$1,632, respectively.

During our current audit, we reviewed rent computations for 15 tenants and found that eligible tenants were receiving the earned income exclusion. However, we also found a mathematical error in one rental computation that caused a tenant to be overcharged \$252. We brought this matter to the Executive Director, who credited the tenant's account to correct the mathematical error. Moreover, the Executive Director indicated that all rental calculations have since been reviewed to ensure there were no further mathematical errors.

2. IRS 1099-MISC INCOME INFORMATION FORM NOT PREPARED FOR CERTAIN AUTHORITY CONTRACTORS

Our review determined that due to an oversight, the Authority did not issue Internal Revenue Service (IRS) 1099-MISC income information forms to three contractors who were paid \$20,020 during calendar year 2005 and two contractors who were paid \$13,735 during calendar year 2006 for their services. For each contractor paid over \$600 during a calendar year, IRS regulations require entities to prepare and file with the IRS a 1099-MISC form that details the name of the contractor, federal reporting number, and amount paid. By not adhering to the IRS requirement, the Authority could be subject to unnecessary penalties and interest. We brought this matter to the attention of the new Executive Director, who indicated that she will be instituting new procedures to ensure all the required 1099-MISC forms are issued in the future.

Recommendation

The Authority should correct their IRS filings for 2005 and 2006 and issue 1099-MISC forms to the contractors. Also, in the future the Authority should ensure that all 1099-MISC income forms are properly prepared and filed with the IRS in a timely manner.

Auditee's Response

The Authority's Executive Director responded as follows:

I have spoken with our fee accountant about this matter and he assures me that he will work closely with me to ensure that this does not happen again. We will not issue payment or contract work to any person or company that is not incorporated that does not have a W-9 form on file with us.

Auditor's Reply

We commend the Authority for taking steps to address this issue; however, the Authority should correct its IRS filings for 2005 and 2006 and issue 1099-MISC forms to the contractors.