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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
ATHOL HOUSING AUTHORITY
DECEMBER 1, 2007 TO DECEMBER 31, 2009**

**OFFICIAL AUDIT
REPORT
JANUARY 18, 2011**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Athol Housing Authority for the period December 1, 2007 to December 31, 2009. 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. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2008-0602-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 25-month period ended December 31, 2009, 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 RESULT RESOLVED – RETIREMENT WITHHOLDINGS CORRECTLY CALCULATED

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Our prior audit report, which covered the period April 1, 2005 to November 30, 2007, disclosed that the Authority incorrectly calculated the employee retirement withholding amounts for various employees, resulting in a total of \$953 owed to the local retirement system for fiscal years 2006, 2007, and 2008. Our follow-up review revealed that as of March 31, 2009, the employees had repaid the local retirement system the total amount of \$953 and retirement withholdings are now being calculated correctly.

2. PRIOR AUDIT RESULT UNRESOLVED – EXCESSIVE DELAYS IN REOCCUPYING UNITS

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Our prior audit report disclosed that the Authority lost the opportunity to earn approximately \$6,555 in potential rental income because its vacated units were not reoccupied within the 21-day timeframe established by the Department of Housing and Community Development (DHCD). Our audit also revealed that it took the Authority an average of 85 days to reoccupy 14 units.

Our follow-up review disclosed that the Authority's ability to reoccupy vacant units within DHCD's guidelines remains an issue. During the period December 1, 2007 to December 31, 2009, the Authority lost the opportunity to earn \$25,490 in potential rental income. Our follow-up audit revealed that 30 units were vacant for an average of 128 days. In its response, the Authority indicated that it has established new procedures to help expedite the move-in date of an approved tenant.

3. INACCURATE W-2 WAGE AND TAX EARNINGS STATEMENT FORMS**4**

Our current audit disclosed that the Authority inaccurately reported earnings and taxes withheld on the Internal Revenue Service (IRS) W-2 Wage and Tax Statement forms for certain Authority employees for calendar years 2008 and 2009. The Authority was unaware of the various tax regulations regarding what is to be included or excluded from gross earnings to determine federal, Medicare, and state taxable income. We recommend that the Authority file corrected IRS W-2 forms for 2008 and 2009, issue corrected W-2 Forms to the affected employees, and ensure that all future W-2 Forms are properly prepared. In its response, the Authority indicated that it would issue corrected W-2 Forms to these employees.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Athol Housing Authority for the period December 1, 2007 to December 31, 2009. 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 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 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 that uncollectible tenant accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition and to determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.
- Procedures for making payments for payroll, travel, and fringe benefits to verify compliance with established rules and regulations.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.

- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with contract provisions and that rental charges by landlords were consistent 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 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 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.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2008-0602-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 25-month period ended December 31, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED – RETIREMENT WITHHOLDINGS CORRECTLY CALCULATED

Our prior audit report of the Athol Housing Authority (No. 2008-0602-3A), which covered the period April 1, 2005 to November 30, 2007, disclosed that the Authority incorrectly calculated the employee retirement withholding amounts for various employees, resulting in a total of \$953 owed to the local retirement system for fiscal years 2006, 2007, and 2008. Our follow-up audit revealed that as of March 31, 2009, the employees had repaid the local retirement system the total amount of \$953, and the calculations for retirement withholdings are now being calculated correctly.

2. PRIOR AUDIT RESULT UNRESOLVED – EXCESSIVE DELAYS IN REOCCUPYING UNITS

Our prior audit report disclosed that the Authority lost the opportunity to earn approximately \$6,555 in potential rental income because its vacated units were not occupied within the 21-day timeframe established by the Department of Housing and Community Development (DHCD). Our audit also revealed that it took the Authority an average of 85 days to reoccupy 14 units.

Our follow-up review disclosed that the Authority's ability to reoccupy vacant units within DHCD's guidelines remains an issue. During the period December 1, 2007 to December 31, 2009, the Authority lost the opportunity to earn an additional \$25,490 in potential rental income. Our review revealed that it took the Authority an average of 128 days to occupy 30 vacant apartments. DHCD's Property Maintenance Guide, effective January 1, 1991, requires each housing Authority to have a unit reoccupied within 21 working days after the previous tenant has vacated.

The Authority indicated that it had terminated a part-time maintenance person during the audit period, which left only one maintenance supervisor to complete the refurbishing of vacant apartments, as well as perform other routine maintenance duties. The Authority also stated that it lacks the financial resources to hire outside contractors to assist in refurbishing units.

Recommendation

The Authority should strive to improve its average vacancy turnover time by placing additional emphasis on refurbishing units in a more expeditious manner in order to minimize the potential loss of rental income.

Auditee's Response

In its response, the Authority stated:

At this point in time, the Housing Authority has only one full-time maintenance person. We have, however, started advertising for applicants for the wait-list on a weekly basis. We have also hired contractors to help prepare the apartments for move-ins, when we have funds available, to help expedite the move-in date of an approved tenant.

3. INACCURATE W-2 WAGE AND TAX EARNINGS STATEMENT FORMS

Our current audit disclosed that the Authority inaccurately reported earnings and taxes withheld on the Internal Revenue Service (IRS) W-2 Wage and Tax Statement forms for certain Authority employees for calendar years 2008 and 2009.

The W-2 form is a tax statement that represents taxable income earned and income taxes withheld from the employee's wages during each calendar year. IRS regulations require employers to file a Form W-2 for wages paid to each employee from whom income, Social Security, or Medicare tax was withheld.

Although the Authority filed the Form W-2 for each employee as required, the information reported was inaccurate. The following table shows the taxable income and the taxes withheld that were either under-reported or over-reported for calendar years 2008 and 2009:

Income and Taxes Over/(Under) Reported						
Year	Employee	Federal Income	State Income	Medicare Income	Medicare Tax	
2008	A	\$ 316	\$ 3,636	(\$198)		(\$5)
2008	B	\$48	\$859	(\$59)		(\$1)
2008	C	\$1	\$2,217	(\$117)		(\$2)
2008	D	(\$13)	\$4,828	(\$117)		(\$2)
2008	E	(\$46)	\$3,827	(\$198)		(\$3)
2009	A	(\$203)	\$3,990	(\$203)		(\$5)
2009	B	(\$60)	\$1,057	(\$60)		(\$1)
2009	C	(\$120)	\$2,621	(\$120)		(\$2)
2009	D	(\$120)	\$5,160	(\$120)		(\$2)
2009	E	(\$55)	\$1,054	(\$55)		(\$1)

The Authority indicated that it was unaware of the various tax regulations regarding what is to be included or excluded from gross earnings to determine federal, Medicare, and state taxable income.

Recommendation

The Authority should submit corrected copies of its IRS filings for calendar years 2008 and 2009, issue corrected W-2 Forms to the employees whose taxable income was misreported, and ensure that all future W-2 Forms are prepared correctly.

Auditee's Response

In its response, the Authority stated:

The Housing Authority now understands the regulations and correct process for completing W-2 forms. The Housing Authority has already started the process of correcting the W-2 forms for the tax years of 2008 and 2009.