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. 2010-0603-3A

INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE ATTLEBORO HOUSING AUTHORITY JULY 1, 2007 TO JUNE 30, 2009

OFFICIAL AUDIT REPORT

AUGUST 16, 2010

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION 1

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 Attleboro Housing Authority for the period July 1, 2007 to June 30, 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.

Based on our review, we have concluded that, during the 24-month period ended June 30, 2009, except for the issues noted in the Audit Results section of our report, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS 3

1. EXCESSIVE VACANCIES MAY HAVE RESULTED IN APPROXIMATELY $46,825 IN LOST POTENTIAL RENTAL INCOME 3

Our review of the Authority's vacant unit turnaround time disclosed that it encountered excessive delays in preparing vacant apartments for occupancy, and may have lost the opportunity to earn approximately $46,825 in potential rental income. Specifically, it took the Authority well beyond the recommended 21-day timeframe established by the Department of Housing and Community Development (DHCD) to reoccupy vacant units. In its response, the Authority's Executive Director indicated that this matter was unavoidable as units were required to be held offline and done so with DHCD's knowledge and assistance while planning for a 212 unit modernization project involving both developments.

2. INADEQUATE CONTROLS OVER CREDIT CARD EXPENDITURES 4

Our audit found that the Authority lacked sufficient internal controls over $57,133 in expenditures made with the Authority's credit card. We found that certain expenditures were not supported with the proper documentation, and that the Authority's Executive Director and Deputy Director charged expenses to the credit card that were not related to the business purposes of the Authority. In its response, the Authority's Executive Director indicated that the Authority has instituted a policy, in collaboration with its Fee Accountant, which will ensure that such documentation is more definitive in the future.

3. ACCRUAL AND USE OF COMPENSATORY TIME 6

Our review of payroll time and attendance records disclosed that the Authority's Executive Director was accumulating compensatory time after his normal business working hours. As of June 30, 2009, he had accumulated 284 hours of compensatory time. DHCD allows for compensatory time for administrative and maintenance staff but not for Executive Directors. Neither the Authority's Board of Directors nor the Executive Director was aware of the policy. In its response, the Authority's Executive

Director indicated that it has been the understanding of the Authority and Board that DHCD's guidelines were not mandatory requirements.

Our audit revealed weaknesses in the Authority's internal controls over tenant accounts receivable. The Authority does not have a written cash management plan or collection policy, nor do they aggressively pursue the collection of delinquent tenant accounts receivable balances from vacated tenants. As of June 30, 2009, there was $131,040 in tenant accounts receivable balances, of which $16,428 is from current tenants. The remaining balance of $114,612 is from vacated tenants, of which $106,437 is more than one year old.. The Authority stated that they are in the process of writing a cash management plan and will request that the Board seek approval from DHCD to write off the vacated tenant accounts receivable. In its response, the Authority indicated that is has established a formal Cash Management Policy.

Our review indicated that the Authority did not have proper segregation of duties over the collection of approximately $1.6 million in annual rental revenue. The Finance Director collects the rent, enters the amounts into the Authority's computer system, makes the bank deposits, and reconciles the bank account balance. Without proper segregation of duties, fraud and misuse of funds may occur. In its response, the Authority's Executive Director indicated that the implementation of the Authority's new Cash Management Policy delineates the responsibility of staff, which should result in improved controls.

The Authority's Board of Directors should strengthen internal control procedures of expenditures at the Authority. Currently, the Executive Director and the Deputy Director sign the checks for payment of the Authority's expenditures. The Board members review payments by reviewing a listing of checks paid without any supporting documentation. Proper internal controls would require a member of the Board, along with the Executive Director or Deputy Director, to sign the checks after reviewing the supporting documentation. At the next Board meeting, the remaining Board members should review the expenditures, including the supporting documentation, prior to granting approval for payment. In its response, the Authority's Executive Director indicated that the Authority has implemented a new check-signing policy requiring the Executive Director and one Commissioner to sign every check.

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 Attleboro Housing Authority for the period July 1, 2007 to June 30, 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.

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 tenants' 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.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.

- Modernization and development 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.

- 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.

- 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.

- 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.

In addition, we determined the amount of American Recovery and Reinvestment Act funds that the Authority has applied for, received, and expended.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 24-month period ended June 30, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. EXCESSIVE VACANCIES MAY HAVE RESULTED IN APPROXIMATELY $46,825 IN LOST POTENTIAL RENTAL INCOME

Our review of the Authority's vacant unit turnaround time disclosed that it did not fill vacant units within the timeframe established by the Department of Housing and Community Development's (DHCD) Property Maintenance Guide for the 200 and 667 family programs. DHCD requires that housing authorities reoccupy vacant units with 21 working days of their being vacated by a tenant.

We noted that the 200 Family program, which consists of 89 units, is in the process of extensive modernization due to 48 vacated units that are not in occupancy condition.

For the 667 Elderly program, we found that 70 of the 319 units exceeded DHCD's limit for reoccupying vacant units from one to 187 days beyond the 21-day turnaround time. Consequently, the Authority may have lost the opportunity to earn approximately $46,825 in potential rental income in the 667 program.

The Executive Director stated the following factors that are preventing the Authority from filling vacated units in a timely manner:

- Several of the vacated units were in poor condition, which required extensive time to repair, and consequently led to delays in rehabilitating other vacated units.
- Many of the units became vacant within a short time period.

By complying with DHCD's 21-day unit turnaround requirement, the Authority will improve its financial condition and also house the applicants on its waiting list for state subsidized housing in a timelier manner.

Recommendation

As the collection of tenant rents is the primary revenue source for the Authority, it should make every effort to ready its units for occupancy in accordance with DHCD guidelines. Moreover, the Authority should prioritize its vacant unit turnaround timeframe and document the reasons for delays in filling vacant units, and regularly monitor the unit turnaround process to ensure compliance with DHCD guidelines.

Auditee's Response

The Authority's Executive Director responded, in part:

> *More than 90% of the audit's estimated vacancy is attributed to activity at our Hillcrest Oaks (200-1) (Family) and Oakhurst (667-1, 667-2) (Elderly) developments. This absence of income was unavoidable as units were required to be held offline and done so with Department of Housing and Community Development knowledge and assistance while planning for a 212 unit modernization involving both developments. DHCD Housing Management, Modernization and Relocation offices were fully aware that almost forty (40) units were affected during the subject period of the audit. Whole buildings were required to be open and available to take down for construction because entire building systems were replaced. A formal relocation Plan approved by the Bureau of Relocation at DHCD was implemented for this project depicting the movement of existing tenants among completed buildings as unit construction proceeded. Some selective leasing was done at Oakhurst for a short period because State project funding was temporarily reallocated. Units at Oakhurst are offline in conjunction with Phase III planning of the same DHCD modernization project.*

Auditor's Reply

Our calculations did not include any units approved by DHCD as offline; specifically those from the Hillcrest Oaks (200-1, Family) development or the seven units at Oakhurst (667-1, 667-2, Elderly).

2. INADEQUATE CONTROLS OVER CREDIT CARD EXPENDITURES

Our audit found that the Authority lacked sufficient internal controls over $57,133 in expenditures made with the Authority's credit card. We found that expenditures were not supported with proper documentation. In addition, we found that the Authority's Executive Director and Deputy Director charged expenses to the credit card that were not related to the business purposes of the Authority.

Our review of the credit card statements for the 24-month audit period determined that there were 506 credit card transactions totaling approximately $57,133. We found that the majority of the credit card transactions, although supported by documentation such as a store or restaurant receipt, did not include justification of the expenditure in relation to Authority business. We found that restaurant receipts did not include details such as purpose, attendees, and itemization of purchases. In addition, certain transactions made by the Executive Director and Deputy Director were for items unrelated to the business of the Authority. Although reimbursements were made to the Authority, the Authority's credit cards should never be used for personal purchases.

Our audit further disclosed that the Authority does not have a policy to regulate the use of its credit cards. Without adequate controls requiring proper documentation, review, and approval by the Board of Directors for expenditures made on the Authority's credit cards, there is inadequate assurance that the Authority's credit card is safeguarded against possible misuse.

Recommendation

The Authority should establish policies and procedures to ensure that all credit card expenditures are accompanied by the proper documentation, used only for Authority-related expenses, and approved by the Board of Directors.

Auditee's Response

The Authority's Executive Director responded, in part:

> *To clarify further, the reference to credit purchases refers to total credit purchases. A significant portion of the Authority's credit purchases were charged to our Federal programs versus our State programs… All credit purchases were evidenced by supporting documentation, however, individual documents may not have been completely clear in terms of purpose, etc. Credit charges considered personal made by the Executive Director involved overnight conferences in Massachusetts and were in conjunction with meals. However, the charges were specifically identified on the receipts at the time of expense and were reimbursed by the Executive Director immediately following each conference. Charges considered personal by the Deputy Director were inadvertent but also had been reversed immediately following identification and reimbursed by the Deputy Director prior to the billing statement actually being received by the Authority during the period in question. The Authority has instituted a policy, in collaboration with our Fee Accountant, which will assure that such documentation is more definitive in the future. The Authority's new policy is more definitive in conjunction with credit card purchases going forward.*

Auditor's Reply

All charges, whether they pertain to a federal or state program, require proper documentation. A receipt is not adequate documentation, as detailed information is needed to identify the charge being made and the purpose of the expenditure and to identify the individual who incurred the expenditure.

3. ACCRUAL AND USE OF COMPENSATORY TIME

Our review of payroll time and attendance records disclosed that the Authority's Executive Director was accumulating compensatory time after his normal business working hours. As of June 30, 2009, he accumulated 284 hours of compensatory time. DHCD's guidance provides that when Executive Directors work outside their normal business hours, they may adjust their normal weekday schedule by substituting their night or weekend hours. Such adjustments are subject to discretion of the housing authority's board of commissioners, and are also subject to approval by DHCD. Specifically, DHCD's Public Housing Notice 2002-05, dated August 5, 2002, relating to Executive Director Salary Qualifications Schedules, states, in part:

> *The Department requires that executive directors work during normal working hours (Monday – Friday 8 a.m. to 6 p.m.). Time spent at night or weekend meetings which are directly related to Authority business may be substituted for weekday hours at the discretion of the board and subject to DHCD approval….*

The Executive Director's contract, signed on November 30, 2006, does not contain stipulations on the earning of compensatory time, nor do the Board minutes indicate any approval of this time. In addition, the Executive Director's timesheets do not indicate reasons for working beyond his normal hours.

Recommendation

The Authority should discontinue the unallowable practice of allowing the Executive Director to accumulate compensatory time. In regard to the current balance of accumulated time, the Authority should contact DHCD to determine a resolution to this issue. In addition, the Executive Director's timesheets should detail reasons for working beyond normal working hours.

Auditee's Response

The Authority's Executive Director responded, in part:

> *The Executive Director's contract, Section 6, approved by DHCD, includes language that allows for payment of accrued compensatory time for the Executive Director therein indicating that an accrual is allowed. Longstanding Authority Personnel Policy allows all administrative personnel, including the Executive Director, the ability to accrue and use compensatory time with no restriction on specifically how long a balance can be carried. It has been the understanding of the Authority Board that DHCD's guidance has always been just guidance. The Executive Director does periodically adjust his weekday schedule to allow for the excess work time that has accrued. The leave balance the*

audit report alludes to is the current balance and not the balance during the audit period. During discussion the auditor agreed that the definition of what is considered a reasonable carryover time frame is entirely open to interpretation.

Auditor's Reply

DHCD policy requires that any extra hours worked by the Executive Director at night or on weekends can be substituted for weekday hours at the discretion of the board and subject to DHCD approval. Also, Section 6 – Disability makes reference to compensatory time as follows:

Section 6 – Disability

If employee is unable to perform his/her duties, with or without reasonable accommodation, because of sickness, accident, injury, mental incapacity, or health for a period of six successive weeks beyond any accrued sick leave, Employer shall have the option to temporarily replace Employee until such time as an appropriate medical determination can be made of Employee's ability for continued employment. If Employee cannot provide an appropriate medical determination of his ability to continue employment after forty (40) weeks of disability, Employer may move to terminate this Agreement, without prejudice to Employee's right to disability benefits through the Attleboro Retirement System or Workers Compensation. However, Employee shall be compensated for any accrued sick leave, vacation, holidays, ***compensatory time*** *and other accrued benefits available at that time. (Emphasis added).*

4. WEAKNESSES IN CONTROLS OVER TENANT ACCOUNTS RECEIVABLE

Our audit revealed weaknesses in the Authority's internal controls over tenant accounts receivable. The Authority maintains a rent roll and a tenant accounts receivable ledger to control receivable balances. The Authority does not have a written cash management plan or collection policy, nor do they aggressively pursue the collection of delinquent tenant accounts receivable balances from vacated tenants. As of June 30, 2009, there was $131,040 in tenant accounts receivable balances, of which $16,428 is from current tenants. The remaining balance of $114,612 is from vacated tenants, of which $106,437 is more than one year old. We discussed this matter with the Executive Director, who stated that he is actively pursuing rents from current tenants and currently has 26 tenants in repayment agreements, and that when a tenant vacates, it is difficult to collect the amount due. The Executive Director stated that the Authority is currently rewriting its cash management policy and when this is done, he will ask the Board to write off the vacated tenants' accounts receivable balances. DHCD's Budget Guidelines require that authorities develop criteria for which to write off collection losses, as follows:

> *The (local housing authority) (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) and that a tenant has vacated for at least one year, and that the LHA's diligent pursuit of arrearages has been unsuccessful.*

Recommendation

The Authority needs to develop and implement a written collection policy and aggressively pursue the collection of delinquent tenant accounts receivable balances. In addition, the Authority should get Board approval to write off the vacated tenant accounts receivable balances.

Auditee's Response

The Authority's Executive Director responded, in part:

> *At FY2009 year end the book asset value of the receivables was actually $16,428. This is because with the inception of GAAP accounting $114,612 of receivables had been written off to the Allowable for Doubtful Accounts. So from a financial accounting standpoint receivables are $16,428. From the TAR standpoint the $114,612 written off to the Allowance had not been removed yet because of some uncertainty with regard to eventual receipt of arrearages. We have one staff person available to pursue receivables and this person is aggressive in that effort continually. The Authority has established a formal Cash Management Policy that attempts to augment our approach to this issue. This policy governs and disseminates control over the flow of collections, cash handling and account processing to the best of the Authority's ability given limited staff availability to accomplish these functions.*

Auditor's Reply

Good business practice requires that the Authority should review vacated tenant balances over one year old and determine whether it should pursue the collection or whether the balance should be written off with board approval, in accordance with DHCD regulations. Once the proper receipt of arrearages has been clarified, the Authority should ensure the writing off of $114,612 was accomplished in accordance with GAAP and DHCD's regulations. The Authority's Cash Management Policy should specify that write offs must meet GAAP as well as DHCD regulations.

5. LACK OF PROPER SEGREGATION OF DUTIES OVER REVENUE COLLECTION

Our review indicated that the Authority did not have the proper segregation of duties in the collection, recording, reconciling, and depositing of rental revenue. The Authority collects approximately $1.6 million a year in rental revenue. The rent is either sent through the mail or the tenant will drop it off in a box located at the Housing Authority's office. The Finance Director collects the rent, enters the amounts into the Authority's computer system, makes the bank deposit, and reconciles the bank account balance. Without the proper segregation of duties, the possibility of fraud or misuse may occur. DHCD's Accounting Manual, Section 8, states:

> *It is important that each Local Housing Authority observe fundamental requirements in establishing an effective system of internal controls. Such as a division of duties between authorization and record-keeping so that the activities of one employee act as a check on those of another.*

By establishing the controls outlined in DHCD's Accounting Manual, the Authority lessens the opportunity for fraud or misuse.

Recommendation

The Authority should improve its internal controls over the collection of rents by implementing proper segregation of duties and by having more than one person involved in the revenue collection and reconciliation process.

Auditee's Response

The Authority's Executive Director responded, in part:

> *Implementation of the new Cash Management Policy at the Authority defines a better delineation of responsibility among the available staff. It was noted for the auditors during the audit that only minimal improvement is possible because of limited staff available to implement this segregation of responsibilities. Two staff presently receive collections, a third is performing data entry and a fourth is performing reconciliation. This maximizes the available staff in order to expedite the collections and recording process. The Authority has one staff person working in finance. This is the only staff person with the expertise to understand the impact of these transactions and the most availability to address them. The new policy, however, has brought these other staff members into the process to attempt to be better delineating responsibility.*

Auditor's Reply

We recognize the Authority's difficulty in finding available staff to maintain a segregation of duties; however, to prevent the possibility of fraud or misuse of funds, the collection of revenue and the reconciliation process should be segregated.

6. GOVERNANCE, OVERSIGHT, AND MONITORING NEED IMPROVEMENT

The Authority's Board of Directors should strengthen internal control procedures of expenditures at the Authority. Currently, the Executive Director and the Deputy Director sign the checks for payment of the Authority's expenditures. The Board members only review a listing of checks paid without any supporting documentation. Proper internal controls would require that a member of the Board, along with the Executive Director or Deputy Director, sign the checks after reviewing the supporting documentation. At the next Board meeting, the remaining Board members should review the expenditures, including the supporting details. The Board of Directors must fulfill its fiduciary responsibility to set policy, give direction, and monitor and oversee the activities of the Authority by strengthening internal controls of checks and balances (i.e., governance). These responsibilities ensure that the Authority's fiscal affairs and operations are conducted in compliance with applicable laws, rules, and regulations.

Recommendation

In order to ensure that expenditures are efficient, economical, and in the best interest of the Authority, the Board of Directors needs to fulfill its fiduciary responsibilities by reviewing the supporting documentation of all expenditures. In addition, the Authority should strengthen its controls to require a Board member's signature on all checks.

Auditee's Response

The Authority's Executive Director responded, in part:

> *Seeking to provide additional strength in our controls we have implemented a new check signing policy requiring the Executive Director and one Commissioner to sign every check. The Board, in pursuit of its responsibilities in terms of policymaking has always remained cognizant of its primary purpose in governance as opposed to the day-to-day administration of the Authority. Both the Board and staff highly respect this difference. Maintaining proper oversight of operations has always been a central focus of the Executive Director and Board. The Board has not required a Board member to sign checks for almost a decade but one has done so periodically. In conjunction with our recent changes, however, there are now four Commissioners authorized to sign checks and review backup documentation. The Executive Director and a Commissioner have been reviewing backup and signing all checks since implementation of the new policy.*