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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
BELCHERTOWN HOUSING AUTHORITY
OCTOBER 1, 2004 TO APRIL 30, 2007**

**OFFICIAL AUDIT
REPORT
JULY 16, 2008**

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The Belchertown Housing Authority was established in 1969 pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided housing project composed of 48 elderly (Chapter 667), 12 family (Chapter 705), and 16 special needs (Chapter 689) housing units located in Belchertown. In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Authority for the period October 1, 2004 to April 30, 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 issues addressed in the Audit Results section of this report, during the 31-month period ended April 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our review disclosed that improvements were needed in the Belchertown Housing Authority's internal controls to ensure that the Authority (a) receives correct washer/dryer commission payments from its service provider, (b) issues IRS Forms 1099-MISC to its non-employees who are compensated in excess of the annual threshold of \$600, and (c) authorizes and obtains adequate documentation for employee travel reimbursements. In its response, the Authority indicated that whenever possible, it will observe the collection of washer/dryer revenues and that it will obtain receipts for all washer/dryer commissions. The Authority also indicated that it is attempting to contact and issue an IRS Form 1099-MISC to the non-employee involved in this matter, and that it would take better care to prevent similar omissions in the future. Although the Authority further responded that all travel vouchers are authorized by the Director and the Board, it did not provide documentation to substantiate that such authorization occurred in all cases tested during the audit.

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Our audit disclosed that the Authority did not fill vacant units within the timeframe established by the Department of Housing and Community Development (DHCD). DHCD mandates that housing authorities shall have vacant units readied for occupancy within 21 business days. However, we found that the Authority had 10 units that remained unoccupied for a total of 467 excess days beyond DHCD's 21-day limit. Consequently, the Authority lost the opportunity to earn approximately \$5,048 in potential rental income as a result of these excess days. In its response, the Authority indicated that it makes every effort to turn over and occupy vacated units as quickly as possible. In addition, the Authority indicated that unforeseen maintenance issues and

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The Belchertown Housing Authority's financial statements identified tenant accounts receivable balances totaling \$4,094 as of September 30, 2006. Of this amount, \$2,890 was due from three tenants that vacated their units between September 2004 and April 2006. Contrary to DHCD's Budget Guidelines, the Authority did not prepare a written explanation regarding why it was maintaining the delinquent accounts on its active accounts receivable ledger. In its response, the Authority stated that the Board unanimously voted to write off these balances from accounts receivables at its regular meeting on December 20, 2007.

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In accordance with Chapter 121B, Section 16, of the General Laws, the Authority is required to remit an annual PILOT payment to the Town of Belchertown. For fiscal years 2005 through 2007, the Authority's PILOT payments totaled \$14,454. However, we noted that the Town miscalculated the PILOT amount because of errors within its records. Consequently, for the three-year period, the Authority underpaid the Town of Belchertown approximately \$2,248. In its response, the Authority indicated that it has notified the Town of Belchertown about the past PILOT errors, and that the Town has correctly calculated the Authority's PILOT for fiscal year 2008, which resolves the matter.

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During our audit fieldwork, we reviewed the Authority's rent re-determinations completed during fiscal year 2006. Specifically, we examined 10 of 59 tenant files to ensure that the financial information reported by tenants was supported by adequate documentation and that the Authority's mathematical calculations were correct. Our review revealed deficiencies in four of the 10 files sampled. Specifically, the Authority allowed income deductions for two tenants without any supporting documentation, incorrectly calculated one tenant's gross monthly income, and suspended its efforts to re-determine another tenant's rent after three unsuccessful attempts to contact the tenant. In its response, the Authority indicated that the documentation which it receives during the rent re-determination process is photocopied and attached to tenants' recertification forms, but that on occasion, a receipt or form may not get attached or photocopied due to the enormous volume of documentation provided by tenants. In addition, the Authority indicated that it has recalculated the gross monthly income for the third noted tenant and corrected that tenant's monthly rent. Lastly, in its response, the Authority stated that the fourth noted tenant was reached by telephone on December 21, 2006, and that the tenant cooperated with the annual rent re-determination process.

6. INADEQUATE INTERNAL CONTROLS OVER EMPLOYEE PAYROLL AND PERSONNEL RECORDS

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Our review over employee payroll and personnel records covering the period October 1, 2004 to September 30, 2007 found that the Belchertown Housing Authority needed to strengthen its internal controls over employee payroll and personnel records. Specifically, we found that the Authority did not correctly calculate the Executive Director's vacation time, sick leave, and personal time balances or approve her weekly timesheets. Moreover, the Executive Director's employment contract with the Authority contained certain benefit provisions that conflicted with the Authority's Personnel Policy. We also found that two part-time employees received unauthorized holiday pay and that the Authority did not maintain complete employee personnel records. Consequently, the Authority was not conducting its payroll and personnel activities in accordance with DHCD's Accounting Manual. In its response, the Authority noted that it has taken action to correct these problems.

INTRODUCTION

Background

The Belchertown Housing Authority was established in 1969 pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided housing project composed of 48 elderly (Chapter 667), 12 family (Chapter 705), and 16 special needs housing units (Chapter 689) located in Belchertown.

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 Belchertown Housing Authority for the period October 1, 2004 to April 30, 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 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 redetermination 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.
- 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 regulations.

- 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 two fiscal years 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 substantiate 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.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 31-month audit period ended April 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. ADMINISTRATIVE INTERNAL CONTROLS

Our review disclosed that the Belchertown Housing Authority could strengthen its internal controls over certain cash receipts, non-employee payments, and travel expenses. According to the terms of the Authority's contract with a local company for the installation and service of its washing and drying machines, the Authority should receive 60% of the revenues generated by the machines, which amounts to approximately \$1,630 per year, of total annual revenue of \$260,927. However, we found that the Authority could improve its controls over the accuracy of the commission payments it received during the audit period. Specifically, the Authority did not physically observe the collection of washer/dryer revenues or receive documentation of the total amount collected by the vendor. It should be noted that the Authority has taken corrective action since this matter was brought to its attention.

Also, according to IRS publication Circular E, Employer's Tax Guide, agencies that compensate individuals (non-employees) in excess of the annual threshold of \$600 must issue the individual an IRS Form 1099-MISC. However, we found that for calendar year 2006, the Authority did not provide the required Form 1099-MISC to a contractor who received non-employee compensation totaling \$1,775 for the installation of carbon dioxide (CO2) detectors within the Authority's special needs housing units. The Authority has also taken corrective action in this matter.

In addition, our review of travel expenses found that the Authority could also strengthen its internal controls to ensure that employee travel reimbursements are properly authorized and accurate. DHCD's Accounting Manual for State-Aided Housing Programs requires Local Housing Authorities (LHAs) to develop and implement controls that safeguard the assets of the organization and ensures the accuracy and reliability of accounting data. Also, DHCD's Accounting Manual requires LHAs to observe certain fundamental internal control requirements, including the use of forms, documents, and procedures, that facilitate control and provide for proper approvals. However, our review found that from October 1, 2004 to September 30, 2007, the Authority did not properly authorize five employee travel reimbursements totaling approximately \$866. In addition, the Authority made two inaccurate travel expense payments during the audit period, an overpayment totaling \$79.20 and an underpayment totaling \$6.40.

Recommendation

The Belchertown Housing Authority should continue to follow IRS regulations regarding non-employee compensation and issue IRS Forms 1099-MISC when applicable, including the instance noted during our review. In addition, the Authority should establish controls to ensure that employee travel reimbursements are correct and properly authorized prior to payment.

Auditee's Response

[We] have contacted [the washing machine vendor] and requested a statement every time he comes. On this statement it will have the date, number of quarters collected, dollar count and commission. It then will be signed by the person who collected.

Because we are only part time we are not here when the laundry money is being collected and often times there is only one person in the office and we cannot leave the office or close the office to stand and watch the laundry money being collected. [We] did agree that if the office is not busy, there are two people in the office and we are here, we will observe the laundry money being collected. If we do observe, [we are] documenting this on the statement we receive.

We may use up to 83 vendors at any given time and may be employing new contractors throughout the year depending on any major projects being done at any given time. For the audit period ... one contractor, an electrician, was accidentally omitted on the computer when the vendor is set up for payment to receive Form 1099-MISC. An attempt was made to contact this vendor on August 23^d, 27th and 30th with no response back. A letter was then sent on Sept. 3^d with a W-9 form. Better care will be taken in future to not omit any non-employee over the annual threshold of \$600.00.

All travel reimbursements are authorized by the Director and then by the Board at the regular monthly meetings. They review and discuss all monthly payments being made. A travel voucher form is required prior to payment. Documentation is always submitted as you will see by the parking tickets attached to this travel voucher. All travel is properly authorized prior to payment and there are adequate internal controls over the administrative functions.

Auditor's Reply

We commend the Authority for instituting a new policy whereby it will obtain a receipt from the washer/dryer vendor for commissions it receives from these machines. In addition, the Authority's decision to periodically observe the collection of washer/dryer revenue will certainly strengthen the Authority's control over this activity.

We understand that the majority of vendors who conduct business with the Authority are provided the appropriate IRS forms. We commend the Authority for its follow-up actions with the one vendor who did not receive the IRS Form 1099-MISC.

2. EXCESSIVE VACANCIES RESULTED IN APPROXIMATELY \$5,048 IN LOST POTENTIAL RENTAL INCOME OVER A 36 MONTH PERIOD

Our audit disclosed that the Belchertown Housing Authority did not fill vacant units within the timeframe required by the Department of Housing and Community Development (DHCD). Specifically, DHCD requires LHAs to have vacated units readied for occupancy within 21 business days. However, we found that the Authority had 10 units that remained unoccupied for a total of 467 business days beyond the 21-day limit. Consequently, the Authority may have lost the opportunity to earn \$5,048 in potential rental income during the 36-month period under audit without consideration of maintenance costs and the fact that the new rental rate may be less than the average, as follows:

<u>Housing Program</u>	<u>Unit</u>	<u>Excess Days Vacant</u>	<u>Average Daily Rent</u>	<u>Potential Rental Income</u>
667	29-B	31	\$10.81	\$ 335.11
667	35-A	20	\$10.81	216.20
667	32-A	14	\$10.81	151.34
667	32-A	49	\$10.81	529.69
667	26-A	30	\$10.81	324.30
667	22-C	62	\$10.81	670.22
667	25-C	6	\$10.81	64.86
705	4 -GH	123	\$10.81	1329.63
705	4 SS	29	\$10.81	313.49
705	2 SS	<u>103</u>	\$10.81	<u>1113.43</u>
Total		<u>467</u>		<u>\$5,048.27</u>

Based upon the Authority's vacancy ledger, the excessive vacancies resulted from two units that required extensive cleaning and repairs and one unit that was not accepted by the first five applicants to whom it was offered.

Recommendation

As rental income is the primary revenue source for the Authority, it should make every effort to ready and lease the units for reoccupancy in accordance with DHCD guidelines

Auditee's Response

The Authority's Executive Director responded, in part:

The Authority does make every effort to occupy the units. Below you will find explanations for the vacancies. Please note and take into consideration there is only one full time maintenance employed by this authority. Since we have only one full time maintenance person if there is an emergency, such as snow removal, inspections, vacations, emergency work orders, and other priority issues that arise, this will delay the maintenance ready date of apartments. After lengthy discussion with maintenance and assistant it appeared there were some errors made in dates that were inputted onto the vacancy ledger. These have been corrected. [We] have also incorporated into the maintenance turnovers a lengthy descriptive maintenance ready log sheet that [we] will require maintenance to fill out and submit to me at completion of each and every apt turnover. Maintenance already submits a log sheet to me but the current one will be more descriptive in the apt. condition and any repairs that were made by himself or outside contractor. This should alleviate any errors or misunderstandings on the vacancy ledger and also offer more information as to unit condition. Also note that predicting an exact date when maintenance will have a unit ready for occupancy is not always possible. Many times units need new carpeting, new tile flooring, new re-plumb of kitchens and baths, boiler repair, etc. All of these issues will many times be addressed by an outside vendor that we have to schedule which may take several days. When an apartment is maintenance ready to move in we try to occupy these apartments as soon as possible. Example: If maintenance comes to me and says an apartment will be ready on the 28th the new tenant will be notified immediately. As you can imagine the new tenant cannot move in the next day. Many times new tenants need to rent a moving truck, stay through the end of the month due to lease obligations where they currently live, health issues delaying their move in, etc. All apartments are occupied as quickly as possible.

29B Occupied 12 days after maintenance ready date. Note: While this apartment was being turned over maintenance was finishing up on another apartment that he was turning over and was also working on 705 turnover at the same time.

35A Occupied 16 days after maintenance ready date.

32A Occupied 16 days after maintenance ready date. This apartment needed excessive repairs. New tile floors, new plumbing hardware in bath and kitchen. New screens for windows, lock repair. This was a long term tenant that produced abnormal wear and tear on unit.

32A Occupied again 54 days after maintenance ready date. This apt took time to occupy because it was offered to applicant who at last minute refused due to health issues. Next applicant was notified immediately. Applicant accepted and moved in on 3/16/06.

26A Occupied 3 days after maintenance ready date. This apartment did take maintenance a little longer to turnover due to excessive repairs and cleaning. This was a long term tenant. Needed new appliances. Repair to flooring. Maintenance was also in #4 State Street turning over 705 apartment at same time.

22C Occupied 48 days after maintenance ready date. This apartment was offered to 5 previous applicants, control numbers E3457, E3496, E3486, E3485 and E3449 that either refused or passed away. Applicant with control number E3418 accepted and moved in on 7/17/06. During this time maintenance was working on apartment 33A and was accompanying National Grid into each apartment to install free energy efficient frost free refrigerators through the energy saving program offered.

25C Occupied 3 days after maintenance ready date. This apartment took maintenance a little longer than usual due to one week of vacation.

4GH This apartment was extremely damaged. This apartment needed new radiators put in by heating contractor, new carpeting throughout, and new appliances. Door and lock repair. New bath and kitchen faucets installed. Replacement of overhead lights. There was excessive wear and tear in this apartment.

4SS Occupied 1 day after maintenance ready date. This apartment was a long term tenant. Maintenance actually did not get into this apartment until after October 10th because the Office of the Sheriff issued a Notice of scheduled eviction. Because of the remaining personal items left by tenant A to Z moving was scheduled to remove item's from apartment. Under advisement from legal council we were not to enter apartment until such process had been completed. The ex-tenant notified the Sheriff's Dept. that she did not want any of the remaining items left in apartment and we could dispose of. It then took maintenance 4 days to clear the debris from the apartment before he could even start turning it over.

2SS Occupied 52 days after maintenance ready. Maintenance could not get this apartment turned over any quicker due to snow removal, a hot water tank replacement, and went to MHQ in Ct. to pick up new maintenance truck. This apartment also needed new baseboards and major cleaning.

To recap these vacancies you will see that all apartments are turned over and occupied as quickly as possible. Due to unforeseen circumstances with maintenance issues or applicants deciding they do not want to move, there will be times when apartments are over 21 days vacant but very rarely. [We] also consider lost rent to be calculated from the time the apartment is maintenance ready not when vacated. In reality an apartment cannot earn income when maintenance is installing new floors, painting, putting in new baseboard heat, waiting for appliances to be delivered, etc. Due to safety and health [we] would not allow an applicant to occupy the apartment.

Auditor's Reply

We commend the Authority for developing a maintenance-ready log sheet to alleviate any errors or misunderstandings on its vacancy ledger and to offer more information as to the condition of

vacated units. Further, we are aware that each vacancy requires a unique amount of work to prepare it for occupancy including painting, flooring, plumbing, etc. Also, we understand that qualifying tenants is a time-consuming process. Therefore, as required under DHCD's standard lease agreement, the Authority should encourage tenants to provide 30-days notice prior to vacating in order for the Authority to effectively schedule repairs and maintenance to vacated units. In addition, the Authority should encourage tenants to report all necessary repairs in a timely manner to ensure that minor repairs do not become major problems upon termination of a tenancy.

Based upon DHCD's Property Maintenance Guide, LHAs are allowed a maximum of 21 business days from the time a unit is vacated to have the unit refurbished and occupied by a new tenant.

3. VACATED TENANT ACCOUNTS RECEIVABLE BALANCES

The Belchertown Housing Authority's financial statements identified tenant accounts receivable balances totaling \$4,094 as of September 30, 2006. Of this amount, \$2,890 was due from three tenants that vacated their units between September 2004 and April 2006. The table below details these past due amounts:

<u>Tenant</u>	<u>Date Vacated</u>	<u>Amount Owed</u>
A	October 2005	\$ 603
B	September 2004	\$2,203
C	April 2006	<u>\$ 84</u>
Balance		<u>\$2,890</u>

DHCD's Budget Guidelines state that LHAs should base 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.

(4) Dormant (no activity for 12 months) vacated tenant accounts receivables which exceed two years may remain on an authority's books only if the LHA can show just reason for it. Those vacated tenant accounts receivables which are over 18 months old, and have not been written off must have a written explanation in the file as to why they remain on the active accounts receivable ledger.

The Belchertown Housing Authority has developed a Vacancy and Collection Losses policy that complies with DHCD's Budget Guidelines. We found that the Authority has taken sufficient steps to implement its policy to recover overdue amounts through late notices, dunning notices, court claims, etc. However, contrary to DHCD's guidance, Authority officials could not provide a written explanation for maintaining the three delinquent accounts on its active accounts receivable ledger.

Recommendation

The Authority should review tenant accounts receivable balances on a regular basis, write off any uncollectible balances in accordance with DHCD's Budget Guidelines, and provide documentation to justify any overdue accounts receivable balances that remain on its active ledgers.

Auditee's Response

Every month prior to the accountant coming [we] review [...] the receivable balances due and take the necessary steps to collect.

At the regular board meeting on December 20, 2007 the board unanimously voted to write off these balances from accounts receivables.

4. PAYMENT IN LIEU OF TAXES (PILOT)

In accordance with Chapter 121B, Section 16, of the General Laws, the Belchertown Housing Authority is required to remit an annual PILOT payment to the Town of Belchertown. For fiscal years 2005 through 2007, the Authority's PILOT payments totaled \$14,454. However, we noted that the Town of Belchertown miscalculated the PILOT amount due to inaccurate information maintained within its records. Specifically, although the Town's records indicate that the Authority

had a total of 45 bedroom units, in fact, the Authority has 52 bedroom units. As detailed in the table below, the seven-unit discrepancy caused the Town to under-bill the Authority \$2,248.49 over the three-year period.

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Total</u>
Payments	\$4,839.75	\$4,816.00	\$4,797.90	\$14,453.65
Amount Due	<u>\$5,592.86</u>	<u>\$5,565.30</u>	<u>\$5,543.98</u>	<u>\$16,702.14</u>
Variance	<u>\$ 753.11</u>	<u>\$ 749.30</u>	<u>\$ 746.08</u>	<u>\$ 2,248.49</u>

Recommendation

The Belchertown Housing Authority should inform the Town Assessor of the actual number of bedroom units under its control to ensure accurate PILOT billings and payments in the future. In addition, the Authority should discuss its overdue PILOT amounts with appropriate Town officials.

Auditee's Response

The town has been notified as to the inaccurate information. The Town of Belchertown miscalculated the PILOT amount owed. Town apologized and has corrected for Fiscal Year 2008. The Town is not requiring a past due PILOT amount from the authority.

Auditor's Reply

We commend the Authority for communicating the correct number of its bedroom units with the Town of Belchertown. This will enable the Town to correctly calculate the Authority's PILOT in the future.

5. ANNUAL RENT RE-DETERMINATIONS

Our review of the Authority's tenant files revealed that the Authority incorrectly re-determined some of its tenants' monthly rent. Under 760 Code of Massachusetts Regulations (CMR) 6.04(4)(a), LHAs are required to re-determine their tenants' monthly rent once annually:

The LHA shall re-determine each tenant's monthly rent once annually to be effective on a specific re-determination date which shall be the first day of a month...

In addition, 760 CMR 6.04(6) requires LHAs to verify information provided by tenants during the rent re-determination process, including tenant income and exclusions from income and deductions:

The tenant shall provide and authorize reasonable verification of information regarding income, exclusions from income and deductions (whether at initial determination or at any re-determination) in order to insure reliability of the information...

During our audit fieldwork, we reviewed the Authority's rent re-determinations, which it completed during fiscal year 2006. Specifically, we examined 10 of 59 tenant files to ensure that financial information reported by tenants was supported by adequate documentation and that the Authority's mathematical calculations were correct. Our review revealed deficiencies in four of the 10 files sampled. Specifically, the Authority allowed income deductions for two tenants without any supporting documentation, incorrectly calculated one tenant's gross monthly income, and suspended its efforts to re-determine another tenant's rent after three unsuccessful attempts to contact the tenant.

The Authority, when informed of these deficiencies, took immediate corrective action on the first three noted cases, which increased the Authority's rental income by \$332 per month. However, the Authority has not made further attempts to contact the fourth tenant in question despite the Authority's responsibility under 760 CMR 6.04(4)(a) to perform annual rent re-determinations for all tenants. In addition, based upon Section IV(C)(6) of this tenant's unit lease, the Authority may terminate the tenant's lease if the tenant fails to give complete and accurate information necessary for determining rent or fails to reasonably cooperate with the Authority in getting information.

Recommendation

The Authority should ensure that it calculates tenant rents in compliance with DHCD regulations so that all tenants are charged the proper amount. In addition, the Authority should resume its efforts to contact the fourth tenant in question and re-determine the tenant's rent as required under 760 CMR 6.04(4)(a).

Auditee's Response

Two of the annual recertification files that did not have supporting documentation is most likely due to the fact that we receive an enormous amount of income verifications, medical receipts, doctor's prescriptions, social security forms, blue cross forms etc. Sometimes these come to us in a shoebox, a big brown envelope, a big hefty bag. [We ...] go through each one sometimes taking two or three days to complete one tenant. We strive to photocopy each form, receipt, bank statement as carefully as we can. We then attach to the recertification. We always send back the originals to the tenant. On occasion it may happen that a receipt or form does not get attached or photocopied. [We are] sure this is what happened regarding these two tenants...

The one tenant where the gross monthly income was an error and has been corrected, tenant has been notified.

As the audit indicates [we] took immediate action to correct the first three noted cases... This office does and always has performed annual rent re-determinations for all tenants.

Please be aware that Section IV(C)(6) of the tenant's unit lease says HA may terminate the tenant's lease if tenant fails to give information necessary for rent determination or does not cooperate with the authority. Telephone conversation with the tenant (has to use relatives phone) on Dec 21, 2006 reveals tenant has fuel assistance for heat, food stamps for food, no telephone, electric was turned off but turned back on due to child with medical problems. Tenant did agree to notify this office immediately if future income was obtained from any source. [We] felt tenant did cooperate and call the office to report her income situation and to discuss any future income. Rent re-determination papers have been sent out to this tenant for Jan. 1, 2008 annual redetermination along with a no income spreadsheet if necessary.

This Authority does ensure that we calculate tenant rents in compliance with DHCD regulations. The Director or assistant make periodic drive through inspections at all family housing. We do this to look for strange vehicles, new vehicles, safety issues, pattern in when tenants are home, possibly leaving early in morning and coming back in afternoon indicating tenant is working. This Authority does make every effort to determine if any tenant is getting income from any source.

Auditor's Reply

We commend the Authority for taking immediate action to correct its rent re-determinations for the first three noted tenants.

In its response, the Authority stated that it always performs an annual rent re-determination for all tenants. In this regard, based upon 760 CMR 6.04(4)(b) the Authority is required to provide 60 days written notice to tenants that rent shall be re-determined, and tenants, within 30 days following the date of such notice, shall provide sufficient complete information for the LHA to make a reliable determination of the household's income, exclusions from income, and applicable deductions. However, we found no such documentation within the Authority's files for the fourth noted tenant. In addition, the Authority's response indicates that this tenant was contacted by telephone on December 21, 2006, at which time information was obtained relative to the tenant's financial situation. The Authority should document all communication and determinations.

6. INADEQUATE INTERNAL CONTROLS OVER EMPLOYEE PAYROLL AND PERSONNEL RECORDS

Our review over employee payroll and personnel records covering the period October 1, 2004 to September 30, 2007, found that the Belchertown Housing Authority needed to strengthen its internal controls over employee payroll and personnel records. Specifically, we found that the Authority did not correctly calculate the Executive Director's vacation time, sick leave, and personal time balances or approve her weekly timesheets. Moreover, the Executive Director's employment contract contained certain benefit provisions that were inconsistent with the Authority's Personnel Policies. We understand that there is some question as to whether the contract or the policy rules. We also found that two part-time employees received unauthorized holiday pay, and that the Authority did not maintain complete employee personnel records. Consequently, the Authority was not conducting its payroll and personnel activities in accordance with DHCD guidelines, which has caused the Authority to incur excessive fringe benefit costs totaling approximately \$5,835 during the audit period.

DHCD's Accounting Manual for State-Aided Housing Programs is intended to assist LHAs in setting up and maintaining a proper accounting system that will allow for the accumulation of accurate accounting data and timely and proper reporting of financial information for all DHCD programs. Section 8 of DHCD's Accounting Manual requires that LHAs develop and implement a system of internal controls to safeguard the assets of the organization and to ensure the accuracy and reliability of accounting data. Moreover, Section 8 requires LHAs to observe certain fundamental internal control requirements, including the use of forms, documents, and procedures that facilitate control and provide for proper approvals.

In addition, DHCD's Accounting Manual provides LHAs with guidance relative to payroll and personnel records. Specifically, Section 15 of the Accounting Manual requires LHAs to maintain attendance reports and leave balances for all employees, as follows:

Attendance Reports: 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.

Leave Record: If the personnel policy of the Local Authority provides the accrual of annual and sick leave for employees, a record of all leave earned and taken must be maintained for each employee.

Attendance and leave reports must be kept on all employees. These reports are to be kept on an updated basis as pay periods close.

Also, Section 15 of the Accounting Manual requires LHAs, at a minimum, to maintain an employee record that includes such information as employee name and address, Social Security Number, job title, date of employment, salary and/or hourly wage, payroll deductions, number of dependents, and emergency contact person.

However, as detailed below, the Authority did not develop adequate internal controls over employee payroll and personnel records to safeguard its assets and ensure compliance with DHCD's Accounting Manual.

Excessive Paid Vacation Time

Our review of payroll records disclosed that the Executive Director received excessive paid vacation time during fiscal years 2005, 2006, and 2007. Based upon the Authority's Personnel Policy, the Executive Director should have received 142 vacation hours during the period. However, we found that the Authority provided the Executive Director with 280 vacation hours. Based upon the Executive Director's average salary of \$25.10/hour during this period, the excessive benefits provided to the Executive Director totaled approximately \$3,463.80 (\$25.10 x 138 hours).

We identified two factors that accounted for the Executive Director's excessive vacation benefits. First, the Authority did not correctly account for the Executive Director's years of service, which prematurely raised her benefit level from two to three weeks paid vacation per year. Second, the Executive Director works 22 hours per week at the Authority, but was erroneously provided vacation benefits based upon full-time employment (40 hours). The Authority's Personnel Policy states, "Employee benefits are based upon a 40-hour work week. The amount of benefits provided will be pro-rated for those employees who normally work less than a 40-hour week and calculated on a five day basis."

Sick Leave Benefits Understated

Our review of payroll records also found that the Authority incorrectly calculated the Executive Director's sick leave benefits. Based upon the Authority's Personnel Policy, the Executive Director was eligible to receive 5.5 hours of sick leave per month, or 198 hours during our audit period.

However, we found that the Executive Director accrued only 150 sick leave hours. Consequently, the Executive Director is eligible to receive 48 (198 hours - 150 hours) additional sick leave hours from the Authority.

Excessive Personal Time Benefits

Our review of payroll records identified that the Authority provided the Executive Director with excessive personal time benefits during the audit period. Based upon the Authority's Personnel Policy, full-time employees receive three days, or 24 hours, of personal time annually. As previously noted, the Authority's Personnel Policy requires that benefits for part-time employees, such as the Executive Director, be pro-rated based upon a five-day, 40-hour workweek. Thus, the Executive Director, who works 22 hours per week was eligible to receive only 13.2 personal hours annually. However, we found that the Authority provided the Executive Director with 24 hours of personal time annually, which resulted in excess benefits for the Executive Director totaling \$813.24 during the audit period.

Employment Contract Conflicts

Our review of the Executive Director's three-year employment contract commencing August 10, 2006 identified certain terms that conflicted with the Authority's Personnel Policy. Specifically, the contract states the Executive Director shall receive 14 days of vacation time per year, and provides no provision for personal days. Yet, based upon the Authority's Personnel Policy, which the Authority has utilized to govern the Executive Director's benefits, the Executive Director receives 15 vacation days and three personal days per year. However, we recognize that Chapter 121B stipulates that the Board shall determine the qualifications, duties, and compensation of the Executive Director.

Unauthorized Holiday Pay

Based upon the Authority's Personnel Policy all permanent employees who work at least 18.75 hours per week receive time off with pay for 11 holidays annually. Our review of the Authority's payroll records identified two part-time employees who worked less than the 18.75-hour threshold. Yet, the part-time employees received holiday pay totaling \$1,558 during the audit period. Because

the Authority has not established controls to ensure compliance with its Personnel Policy, the Authority may have incurred unauthorized costs.

Incomplete Personnel Records

As previously noted, Section 15 of DHCD's Accounting Manual requires that, at a minimum, LHAs maintain an employee record that includes basic employee data such as employee name and address, Social Security Number, job title, date of employment, etc. Moreover, sound business practices advocate that LHAs include within their personnel files all relevant employee information, including job descriptions and required qualifications, employment contracts, employee evaluations, awards, raises and promotions, disciplinary warnings, etc. Proper maintenance of such information helps ensure that all personnel matters are adequately documented and properly authorized by appropriate Authority officials. In addition, such files can help protect the rights of the Authority and its employees should a labor dispute arise.

However, our review found that the Authority does not maintain a complete personnel file for each of its employees. Specifically, the Authority's personnel files lacked basic employee information including date of hire, emergency contacts, hourly wage rate, date and amount of pay increases, and authorization of payroll deductions. In addition, the U.S. Department of Homeland Security requires employers to document potential employees' eligibility to work via Form I-9, Employment Eligibility Verification. Yet, the Executive Director's personnel file did not include the required federal form.

Recommendation

The Authority should develop controls to ensure that employee benefits including vacation time, sick leave, personal leave, and holiday pay are calculated in accordance with its Personnel Policy or the applicable employment contracts. Moreover, the Authority's Board of Directors, in conjunction with the Executive Director, should develop a plan to correct the Executive Director's sick leave balance and recover any excess benefits that may have been provided. The Authority should also ensure that its part-time employees meet the 18.75-hour per week threshold before receiving compensation for holidays. In addition, the Authority should develop a personnel file for each employee that includes all information specified in DHCD's Accounting Manual, as well as any other pertinent personnel-related documents

Auditee's Response

The Authority's Executive Director responded, in part:

Excessive Paid Vacation Time: At a Regular Board meeting of December 13, 2007 board voted to zero out the excess benefits that were provided to Director per Audit Report. And it was noted that now that the Director's contract which was approved by DHCD and the Board on 6/1/6/03 stating that the Director will be entitled to fourteen (14) days vacation leave for each year and 1 ¼ days of sick leave has been changed to sixty six (66) hours per year vacation and 5.5 hours of sick leave for each continuous month of employment. This will prevent any future discrepancies on the time sheets and payroll book.

All other issues have been brought to my attention and corrected.