



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report-October 19, 2012

---

## Bridgewater Housing Authority

For the period October 1, 2008 through March 31, 2011



---

## 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 Bridgewater Housing Authority for the period October 1, 2008 through March 31, 2011. The objectives of our audit were to review and analyze the Authority's management controls and practices over certain areas and functions for the purpose of determining their adequacy and review the Authority's compliance with various laws, rules, and regulations.

Based upon our audit, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the period October 1, 2008 through March 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

---

### **AUDIT RESULTS**

**3**

#### **1. INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT INVENTORY**

**3**

During the audit period, the Authority was not complying with established procedures for inventory controls over its property and equipment. Specifically, the Authority had not performed an annual physical inventory or updated its custodial inventory lists since 2003. In addition, the Authority did not remove items that had been disposed of from its inventory list and therefore overstated the inventory values in its financial records. As a result, there is inadequate assurance that the Authority's inventory, which as of December 31, 2010 had a value of \$73,505, is safeguarded against possible loss, theft, or misuse.

---

#### **2. IRS FORM 1099-MISC NOT ISSUED TO TWO CONTRACTORS**

**4**

Our review disclosed that, contrary to Internal Revenue Service (IRS) regulations, the Authority did not issue an IRS Form 1099-MISC to two contractors whom it paid more than \$600 each (an electrical contractor who received \$705 during 2009 and a painting contractor who received \$885 during 2010). As a result of failing to comply with IRS regulations, the Authority could be subject to unnecessary penalties and interest.

## INTRODUCTION

### *Audit Scope, Objectives, and Methodology*

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 Bridgewater Housing Authority for the period October 1, 2008 through March 31, 2011. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivable; (5) site inspections; (6) payroll, travel, and fringe benefits; (7) disbursements; (8) inventory controls over property and equipment; (9) contract procurement; (10) cash management and investment practices; (11) Department of Housing and Community Development (DHCD)–approved budgets versus actual expenditures; (12) level of need for operating subsidies and operating reserves; (13) the administration of modernization awards to determine, among other items, the existence of excess funds; and (14) payments made under the Massachusetts Rental Voucher Program (MRVP).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with DHCD regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts-receivable procedures to ensure that rent collections were timely and 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.
- 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 each fiscal year in comparison with actual expenditures to determine whether line-item and total amounts for each 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.
- Procedures for making payments to landlords under the MRVP to verify compliance with the contract provisions and determine whether rental charges by landlords were consistent with established rules and regulations.

Our tests in the above-mentioned areas disclosed no material weaknesses. Based on our audit, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the period October 1, 2008 through March 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

---

## AUDIT RESULTS

### 1. INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT INVENTORY

Our audit of the Bridgewater Housing Authority's furniture and equipment inventory process and records revealed a lack of internal control and accountability over furniture, equipment, tools, and supplies. Specifically, the Authority had not updated its inventory lists or performed an annual physical inventory of these items since 2003. As a result of these internal control deficiencies, the Authority's accounting records may not reflect all acquisitions and disposals of inventory items, and these items, which as of December 31, 2010 had a value of \$73,505, may be vulnerable to loss, theft, or misuse.

The Department of Housing and Community Development's (DHCD's) Accounting Manual, Section 15 (D), requires housing authorities to establish a formal system for the inventory of furniture and equipment, as follows:

*The inventory procedures are as follows:*

- 1) *Establish Furniture and Equipment Record Cards or use an automated system.*
- 2) *Tag all equipment with an inventory tag with an assigned asset number.*
- 3) *Take an inventory once a year.*

*Procedures for Inventory of Furniture and Equipment*

- 1) *A physical inventory of all Furniture and Non-Expendable Equipment must be taken and an inventory list maintained each year.*
- 2) *Physical inventory results must be compared to equipment records and any differences and discrepancies will be reviewed by the LHA [local housing authority] for possible adjustments.*

We brought this matter to the attention of the Authority's Executive Director, who stated that the Authority would implement a new inventory system, conduct an annual physical inventory, and maintain an up-to-date inventory listing.

#### ***Recommendation***

The Authority should:

- Conduct a complete physical count of all its property and assets—noting their location, condition, and value—and ensure that each item is tagged.

- Review purchases and dispositions to determine what should be entered into, or removed from, its accounting records and ascertain whether any items are unaccounted for.
- Maintain a perpetual inventory record for all assets and ensure that controls are in place to safeguard and properly account for those assets.

***Auditee's Response***

The Authority's Executive Director stated that our recommendations would be implemented.

**2. IRS FORM 1099-MISC NOT ISSUED TO TWO CONTRACTORS**

The Authority did not issue an Internal Revenue Service (IRS) Form 1099-MISC to two contractors whom it paid more than \$600 in a calendar year. These included an electrical contractor whom the Authority paid \$705 during calendar year 2009 and a painting contractor whom it paid \$885 during calendar year 2010. Further, in order to avoid issuing an IRS Form 1099-MISC to the painting contractor, the Authority's former Executive Director split the payment to the painting contractor, issuing a check for \$592.50 to the contractor and a check for \$292.50 to his son, although the contractor himself actually performed all the work.

For each contractor paid more than \$600 during a calendar year, IRS regulations require entities to prepare and file with the IRS a Form 1099-MISC that details the name of the contractor, federal reporting number, and amount paid. Because it did not comply with this IRS requirement, the Authority could be subject to unnecessary penalties and interest. The new Executive Director stated that IRS Forms 1099-MISC would be prepared and filed for all contractors paid \$600 or more in a calendar year, in compliance with IRS requirements.

***Recommendation***

The Authority should ensure that all required IRS Forms 1099-MISC are properly prepared, issued to its contractors whom it pays more than \$600 per calendar year, and filed with the IRS on a timely basis.

***Auditee's Response***

The Executive Director stated that our recommendations would be implemented.