



# The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
BROOKFIELD HOUSING AUTHORITY  
FEBRUARY 1, 2003 TO MARCH 31, 2006**

**OFFICIAL AUDIT  
REPORT  
MAY 7, 2007**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Brookfield Housing Authority for the period February 1, 2003 to March 31, 2006. 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 our prior audit results. Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 38-month period ended March 31, 2006, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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#### 1. PRIOR AUDIT RESULTS RESOLVED

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Our prior audit (No. 2003-1075-3A) of the Brookfield Housing Authority, which covered the period July 1, 2000 to January 31, 2003, disclosed deficiencies in the areas of financial management, tenant records, and withholding of retirement contributions. Our follow-up review noted that the Authority has taken corrective action to address these issues.

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Our prior audit disclosed that one tenant's rent was based on estimated income because the tenant's employer had not submitted income verification. Moreover, when requested, the Executive Director could not locate this tenant's file for review.

Our follow-up review revealed that during the 38-month review period, eight changes were made to the sole tenant's rent, of which three changes lacked supporting documentation for the tenant's income and four changes lacked the signed lease addendums required by the Department of Housing and Community Development's (DHCD) standard lease.

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##### Excessive Vacancies and Failure to Submit Vacancy Reports

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Our prior audit report No. 2003-1075-3A revealed prolonged vacancies in the Chapter 705 Family Housing Program and the Authority's failure to submit the required Quarterly Vacancy Reports to DHCD.

Our follow-up review noted that one unit remained vacant during the subsequent audit period, resulting in an additional \$5,316 lost potential income through August 24, 2006. A total of \$7,837 in potential rental income has therefore been lost since this unit became vacant on October 31, 2001, (including the \$2,521 loss reported in our previous audit). We also noted that the required Quarterly Vacancy Reports were still not being

filed by the Authority during our current audit period February 1, 2003 to March 31, 2006. Subsequent to our audit, the Authority submitted a request to DHCD to take this unit off-line.

## 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 Brookfield Housing Authority for the period February 1, 2003 to March 31, 2006. 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 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.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.

- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- 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. 2003-1075-3A).

Based on our review, we have concluded that during the 38-month period ended March 31, 2006, except for the issues addressed in the Audit Results section of this report, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS RESOLVED

Our prior audit (No. 2003-1075-3A) of the Brookfield Housing Authority, which covered the period July 1, 2000 to January 31, 2003, disclosed deficiencies in the areas of financial management, tenant records, and withholding of retirement contributions. Our follow-up review noted that the Authority has taken corrective action to address these issues, as discussed below.

#### *Financial Management*

Our prior audit of the Authority disclosed weaknesses in the Authority's financial management. Specifically, we found that the Executive Director was not depositing subsidy checks received from the Department of Housing and Community Development (DHCD) in a timely manner. In addition, the Authority could not produce invoices, cancelled checks, and bank statements to support its purchases.

Our follow-up review noted that the Authority has placed a greater emphasis on depositing subsidy checks in a timely manner, and that the checks were deposited within two weeks of the check date. In addition, our tests found that Authority expenditures were properly supported with invoices, cancelled checks, and bank statements during the current audit period.

#### *Management of Tenant Accounts*

Our prior audit revealed several weaknesses in the Authority's management of tenant records. Specifically, we noted that the Authority did not maintain a tenants accounts receivable subsidiary ledger; carried an excessive accounts receivable balance of \$11,299, or 59% of the Authority's operating reserve; and lacked supporting documents required by DHCD for rent determinations.

Our follow-up review noted that two of these three prior issues have been resolved. Specifically, the Authority now maintains up-to-date tenant subsidiary ledger cards that are reconciled monthly to the general ledger, and the Executive Director has actively pursued the collection of past-due rents. As a result, the Authority has reduced its tenant accounts receivable balance to zero as of March 31, 2006. However, the Authority still needs to address the prior audit issue

relative to missing supporting documents required by DHCD for rent determinations (see Audit Result No. 2).

### ***Withholding of Retirement Contributions***

Our prior audit revealed that the Executive Director did not contribute to a retirement system as required. The Internal Revenue Service has issued regulations regarding retirement coverage for public employees who are not members of a retirement plan. Specifically, the Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that such public employees participate in an alternate retirement plan after July 1, 1991.

Our follow-up review found that during the period February 1, 2003 to March 31, 2006, the Authority withheld \$560 from the Executive Director's salary and paid this amount into an alternate retirement plan managed by the ING Insurance Corporation.

## **2. PRIOR AUDIT RESULTS UNRESOLVED**

### ***Missing Rent Determination Information***

Our prior audit disclosed that one tenant's rent was based on estimated income because the tenant's employer had not submitted income verification. DHCD regulations for state-aided housing, 760 Code of Massachusetts Regulations (CMR) 6.04, state, in part: "Failure to provide complete and documented information regarding income is grounds for eviction." Further investigation revealed that the tenant never provided income verification, which should have originally disqualified his application for housing.

Our prior report also noted that the Executive Director could not produce that tenant's file for review. DHCD's Accounting Manual for State-Aided Housing, Section 8-1, states that "the management of each local housing authority is responsible for developing and maintaining a system of internal control which will encourage adherence to prescribed managerial policies, state statutes, and DHCD rules and regulations."

During our follow-up review, we examined the file of the single occupant of the two-unit Authority. (The Authority has only two housing units, one of which is occupied, and the other of which has been vacant since October 31, 2001.) During our 38-month review period, there were eight changes in the sole tenant's rent, and we found that three of these changes lacked

supporting documentation for the tenant's income. The 760 CMR 6.04 states, in part: "The tenant shall provide and authorize reasonable verification of information regarding income... in order to insure reliability of the information." Of the three rent changes that lacked supporting documentation, two were reductions in rent and the other was an increase in rent. When we asked the Executive Director about the lack of supporting documentation, she stated that although the documentation was available at one time, it has since been misplaced. Without proper supporting documentation, three of the eight interim rent re-determinations cannot be verified.

Additionally, our review of the same eight rent changes revealed that four changes lacked the required signed lease addendums, contrary to Section IV(A) of DHCD's standard lease, which states, in part: "Each notice of a redetermined lease shall be in writing and contain the rental amount and the date when it will be effective." The Executive Director stated that she did not always have lease addendums signed because "the rent changes were always after the fact." Without signed lease addendums, there is inadequate evidence that both parties (Authority and tenant) are aware of and in agreement with the rental change as well as the other terms and conditions of the lease.

### ***Recommendation***

The Authority should ensure that lease addendums are prepared each time a rent change occurs as required by 760 CMR 6.00 and the terms of DHCD's standard lease.

### ***Auditee's Response***

*As far as evidence that both parties were in agreement as to rental charges, I believe the record of rent charges and rent collected showed the authority and tenant were in agreement. . . As recommended, all addendums will be prepared and signed in the future.*

### ***Excessive Vacancies and Failure to Submit Vacancy Reports***

Our prior audit report (No. 2003-1075-3A) revealed prolonged vacancies in the Chapter 705 Family Housing Program and the Authority's failure to submit the required Quarterly Vacancy Reports to DHCD.



AS a result, the Authority lost potential rental income exceeding \$5,600 from two 705 Program units. One unit had been vacant since October 31, 2001 (unit 1A), which accounted for \$2,521 of the \$5,600, and the other was vacant from May 15, 1999 to March 15, 2001. DHCD policy dictates that a Housing Authority must receive permission if one of its units is to be “offline” for a prolonged period. The Brookfield Housing Authority Executive Director did not apply for such permission. Furthermore, contrary to DHCD requirements, the Authority did not submit Quarterly Vacancy Reports to DHCD listing vacant units, the length of vacancy, and unit status (e.g., offline). Prolonged vacancies result in lost potential rental income, and not filing Quarterly Vacancy Reports could jeopardize the Authority’s receipt of subsidies.

The Executive Director responded to our prior report by stating that the two units were vacant for prolonged periods because they were old and in desperate need of repair. The Authority has been approved for a planning grant from DHCD, but no work or planning had begun at the time of our review.

Our follow-up review noted that one unit (1A) remained vacant during the current audit period, resulting in an additional \$5,316 lost potential income through August 24, 2006. A total of \$7,837 in potential rental income has been lost since this unit became vacant on October 31, 2001, including the previously reported loss of \$2,521. We also noted that the required Quarterly Vacancy Reports were still not being filed by the Authority during the current audit period February 1, 2003 to March 31, 2006. On August 25, 2006, the Authority submitted a request to DHCD to take this unit off-line.

The Authority has been working with DHCD to rehabilitate these units, with preliminary work commencing in May 2005. A construction contract was approved by DHCD in April 2006, and work was near completion as of August 30, 2006. The Director stated that once she receives a certificate of completion from DHCD, she expects to have the unit occupied.

***Recommendation***

The Authority should fill the unit as quickly as possible and also ensure that Quarterly Vacancy Reports are submitted on a regular basis.

***Auditee's Response***

*With all discussion back and forth and several visits from [the DHCD] management advisor and [the DHCD] department property inspector [the Executive Director] assumed we were all on the same page as to unit being "off-line" until major work could be done.*

*The rehab of the unit in Brookfield was a long drawn [-] out process. Inspections by construction advisors and in[-]house recommendations from DHCD as to how best to advertise [the] scope of work[,] etc. took a good amount of time.*

*As recommended: We leased the unit as soon as possible. As of November 2006[,] we have a very responsible tenant and rent is received in a very timely manner. After repeated consultation with [the] management advisor, [the Authority] worked out computer problems, and quarterly vacancy reports through June 2006 were submitted prior to conclusion [the] of audit.*