



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

Making government work better

Official Audit Report – Issued May 13, 2014

Concord Housing Authority

For the period July 1, 2012 through June 30, 2013





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Making government work better

May 13, 2014

Mary Johnson, Chair
Concord Housing Authority
34 Everett Street
Concord, MA 01742

Dear Chairwoman Johnson:

I am pleased to provide this performance audit of the Concord Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2013. My audit staff discussed the contents of this report with management of the Authority, and their comments are reflected in this report.

I would also like to express my appreciation to the Concord Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED AGENCY	3
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	4
DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE’S RESPONSE	7
1. The Authority did not disclose certain long-term liabilities on its balance sheet.....	7
2. The Authority’s inventory list of its furniture and equipment was incomplete.	8
3. The Authority used incorrect percentages in determining tenants’ rents.	9
4. The Authority did not maintain handwritten waiting-list ledgers.	10
5. The Authority had various tenant-selection issues.....	11
a. Control numbers of applicants were not found in the master file ledger.	12
b. Written documentation of landlord reference checks was not found in the tenant files, and/or landlord references were not adequately reviewed.....	12
c. The Authority did not document why applicants on the waiting list were skipped.	13
6. Our prior audit result regarding noncompliance with DHCD regulations was resolved.	15
APPENDIX	16
GLOSSARY AND ACRONYMS	17

EXECUTIVE SUMMARY

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 Concord Housing Authority for the period July 1, 2012 through June 30, 2013.

The objectives of our audit were to review and analyze the adequacy of the Authority's financial and management controls and to evaluate its compliance with laws, rules, and regulations applicable to state-aided housing programs in the areas reviewed. In addition, we reviewed the Authority's progress in the issues noted in our prior audit report (No. 2009-0637-3A); determined whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority; and, if so, assessed the propriety of these transactions.

Summary of Findings

- A long-term debt of \$1,000,000, related to a loan from the Massachusetts Housing Finance Agency (MHFA), was not disclosed on the Authority's balance sheet in accordance with generally accepted accounting principles. As a result of this omission, the June 30, 2013 balance sheet overstated the Authority's net assets by \$1,000,000.
- The Authority did not maintain an up-to-date list of its inventory and equipment. In addition, the Authority did not properly tag all inventory items to ensure that all items were inventoried and tagged and that only one tag number was affixed to each inventory item. Also, the Authority has not taken a recent physical count of its property and equipment to ensure that its assets are adequately safeguarded from loss, theft, and misuse. As a result, the Authority's recorded amount for inventory and equipment on its balance sheet may be inaccurate.
- The Authority used an incorrect percentage of tenants' net monthly income in determining rental charges to tenants. This resulted in a total of \$7,100 in overcharges to 24 tenants.
- The Authority is currently using an electronic waiting list although the Department of Housing and Community Development (DHCD) requires handwritten waiting lists. As a result, since the waiting-list software is not approved by DHCD, it may not incorporate adequate internal controls to ensure accurate placement of applicants on the waiting list.
- Documentation supporting tenant selection was missing or incomplete; this could cause applicants to be granted housing before other qualified applicants who applied earlier or could result in prior occupancy issues, such as nonpayment of rent, being overlooked in the process of approving applicants. Also, required landlord reference checks were frequently missing from tenant files.

- During our prior audit period, the Authority was experiencing excessive turnaround times for vacant units at the Peter Bulkeley Terrace property and had parking lot, sidewalk, and roof issues at its Chapter 667-2 units for elderly tenants. The recent rehabilitation of this property has resolved these issues.

Recommendations

- The Authority should amend its June 30, 2013 filing with DHCD to reflect the \$1,000,000 loan from the MHFA as long-term debt, decreasing its net assets by a corresponding amount. Future DHCD filings should reflect this \$1,000,000 loan as debt. In addition, future significant financial transactions should be thoroughly reviewed with the Authority's fee accountant and independent certified public accounting firm to ensure appropriate financial statement presentation.
- The Authority should perform an annual physical count of its inventory and reconcile the count to its accounting records.
- The Authority should tag all inventory items and ensure that only one tag number is affixed to each item.
- Since certain tenants at the Peter Bulkeley Terrace were paying a higher rent than they should have been charged, we recommended that the Authority recalculate all rents for tenants in the development and reimburse tenants who were overcharged. The Authority has completed the recalculation and reimbursement.
- The Authority should take measures to ensure that its tenants' rents are calculated and charged in accordance with DHCD regulations in the future.
- The Authority should either conform to current DHCD regulations requiring the use of manual waiting-list ledgers¹ or obtain permission from DHCD to use electronic ones.
- The Authority should assign control numbers to all applicants immediately upon application.
- The Authority should provide written documentation of landlord reference checks in the tenant files.
- The Authority should clearly note in writing why applicants listed before the selected applicant on the waiting lists were skipped.

¹ The waiting-list ledger is a ledger for a specific state housing program listing information on state aided public housing applicants in chronological and preferential order.

OVERVIEW OF AUDITED AGENCY

Background

The Concord Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority's administrative offices are located at 34 Everett Street in Concord, Massachusetts. The Authority currently manages and oversees 28 units for low-income families, 76 units for elderly tenants, and 8 units for mentally handicapped tenants.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Concord Housing Authority for the period July 1, 2012 through June 30, 2013.

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) financial operations, including reasonableness of administrative expenses such as executive compensation and benefits, subsidy calculations, rent collections, the collectability of accounts receivable, cash controls, and the administration and oversight of development and modernization fund expenditures; (2) eligibility determinations, redeterminations, and tenant selection; (3) procurement of goods and services, including the use of collective purchasing and inventory controls over supplies and equipment; (4) site inspections; (5) contracting and leasing procedures; (6) cost allocation (we reviewed the cost allocation plan for reasonableness of methodology to determine whether the allocation amounts supported budgeted items); and (7) compliance with the Department of Housing and Community Development's (DHCD's) financial reporting and data collection requirements. In addition, we reviewed the Authority's progress in addressing the issues noted in our prior audit report (No. 2009-0637-3A); determined whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority; and, if so, assessed the propriety of these transactions.

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 gained an understanding of, and tested, the relevant internal controls for financial operations, tenant selection and occupancy, vacancies, annual rent determinations, property maintenance, administrative expenses, property and equipment, contract procurement, and operating subsidies, as well as modernization. Any deficiencies in internal controls are identified in the Detailed Audit Results and Findings section of this report.

Further, we conducted audit testing in the following areas:

- We reviewed the Authority's policies and procedures for the administration of employee salaries and fringe benefits, verifying compliance with established requirements through examination of a sample of 30 of 312 payroll disbursements.
- We reviewed all travel expenditures and verified compliance with established policies.
- We reviewed 25 of 685 general administrative expenditures for appropriateness and compliance with established policy.
- We tested the controls for operating subsidies and verified that the amount that the Authority earned was consistent with the amount it received from DHCD.
- We tested tenant accounts-receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts-receivable balances were written off properly.
- We reviewed cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- We tested DHCD grants and Authority payments related to modernization and development contractors.
- We reviewed loan documents related to Massachusetts Housing Finance Agency development funds.
- We reviewed 10 of 28 tenant selections to verify that tenants were selected in accordance with DHCD regulations.
- We examined the vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- We tested 10 of 100 annual rent determinations to verify that rents were calculated properly and in accordance with DHCD guidelines.
- We tested procedures for property and equipment and determined the adequacy of the Authority's controls to protect, and account for, its assets in accordance with DHCD regulations.
- We reviewed site-inspection procedures and records to verify compliance with DHCD inspection requirements and determine whether selected housing units were in safe and sanitary condition.
- We examined contract-procurement records to verify compliance with applicable laws and DHCD requirements for awarding contracts.

- We examined 50 of 65 development expenditures to determine that amounts paid were in accordance with applicable procurement requirements.
- We reviewed the Authority's cost-allocation methodology and verified the DHCD-approved operating budget for fiscal year 2013 in comparison with actual expenditures. We also reviewed line-item and total amounts to ensure that they were within budgetary limits.
- We reviewed the adequacy of procedures in effect to collect data and ensure that required reports were complete, accurate, and submitted to DHCD in a timely manner.
- We determined whether the Authority had conducted any transactions with related associations, corporations, or other private entities.

We obtained revenue, subsidy, grant award, and expenditure information generated from information systems maintained by the Commonwealth and by the Authority. We compared this information with source documents and conducted information-security tests to determine the reliability of data. We determined that the data were sufficiently reliable for purposes of this report. Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population.

Through inquiry and examination of source documents during the performance of the foregoing audit procedures, no instances of transactions with related parties came to our attention.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

Audit Findings

1. The Authority did not disclose certain long-term liabilities on its balance sheet.

While reviewing the Authority's required financial statement filings with the Department of Housing and Community Development (DHCD), we noted that a \$1,000,000 loan obtained in 2013 from the Massachusetts Housing Finance Agency (MHFA) was not properly disclosed. Our review revealed that this loan was treated on the balance sheet as a grant (non-repayable), thereby overstating the Authority's net assets by \$1,000,000.

Authoritative Guidance

Generally accepted accounting principles (GAAP) require that debt due in more than 12 months (the normal accounting cycle) be classified on the balance sheet as long-term debt. The form of balance-sheet filing required by DHCD's Accounting Manual for State-Aided Housing Programs, Section 6, makes specific provision for such classification in a balance-sheet line item titled "Notes Payable Capital Projects—Non-Current Portion."

Reason for Incorrect Financial Statements

The Authority's executive director stated that she was unaware of how the loan had been classified on the balance-sheet filing with DHCD. The fee accountant stated that he believed this amount to be a grant. Treatment as a grant corresponds with the financial statement presentation made by the Authority's independent certified public accounting firm, which similarly treated the loan from the MHFA as a grant.

Recommendations

The Authority should amend its June 30, 2013 filing with DHCD to reflect the \$1,000,000 loan from the MHFA as long-term debt, decreasing its net assets by a corresponding amount. Future DHCD filings should appropriately reflect this \$1,000,000 loan as debt. In addition, future significant financial transactions should be thoroughly reviewed with the Authority's fee accountant and independent certified public accounting firm to ensure appropriate financial-statement presentation.

Auditee's Response

Based on our original understanding of the agreement, the \$1,000,000 received from [MHFA] . . . was a loan. However, because [of] its nature and the unlikelihood that it would ever be repaid, it was recorded on the books of account as a grant. Although we still feel that it was accounted for properly, after discussions with the auditors and upon their request, we have since made the reclassification of the \$1,000,000 to a long-term loan on the books of account.

Auditor's Reply

The Authority's reclassification is appropriate, as GAAP dictate the classification of this loan as long-term debt.

2. The Authority's inventory list of its furniture and equipment was incomplete.

The Authority did not maintain an up-to-date list of its inventory of property and equipment. In addition, the Authority did not properly tag all inventory items to ensure that all items were inventoried and tagged and that only one tag number was affixed to each inventory item. We noted specific instances where tagged equipment was not on the inventory list and instances where multiple tags were on inventory items. Also, the Authority has not taken a recent physical count of its property and equipment to ensure that its assets are adequately safeguarded from loss, theft, and misuse. As a result, the Authority's recorded amount for inventory and equipment on its balance sheet may be inaccurate.

Authoritative Guidance

Section 15 of DHCD's Accounting Manual for State-Aided Housing Programs states, in part,

- 1) A tag shall be affixed securely on an easily accessible surface of each item of recorded non-expendable equipment. Each tag will display the housing authority's name as well as a numerical figure.*
- 2) The issuance of the tags will be controlled by the Accounting Department and must be reserved for each item at the time of ordering equipment.*

The manual further states,

- 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 [the] equipment record and any discrepancies will be reviewed by the LHA [local housing authority] for possible adjustments.*

Reason for Incomplete Inventory List

According to the Authority's executive director, a lack of staff has led to the inventory list not being updated since our last audit engagement, in 2009, when the Authority relocated its offices to 34 Everett Street.

Recommendations

The Authority should take the following actions:

- Perform an annual physical count of its inventory and reconcile the count to its accounting records.
- Tag all inventory items and ensure that only one tag number is affixed to each item.

Auditee's Response

CHA [the Concord Housing Authority] does have a limited staff (2.5 office staff) and has since made progress on updating the inventory. A physical inventory will be done on an annual basis.

Auditor's Reply

We believe the action taken by the Authority to conduct an annual physical inventory is appropriate and responsive to our concerns and again recommend that the Authority ensure that it uses unique tags for all of its inventory items.

3. The Authority used incorrect percentages in determining tenants' rents.

The percentage of net monthly income used to determine the monthly rent for 24 tenants in the Peter Bulkeley Terrace development was calculated incorrectly in the 667-2 (elderly/handicapped) development, resulting in \$7,100 in overcharges. The percentage used was 27% of net monthly income (in one case, 30%), but since these tenants paid their own electricity, the percentage should have been 25%, not 27% or 30%. As a result, tenants were charged a higher rent than DHCD allows.

Legal Requirements

According to 760 Code of Massachusetts Regulations (CMR) 6.04, "monthly rent shall be charged tenants of elderly/handicapped housing in the following manner. . . . Where the tenant pays for some or all utilities, rent shall be 25% of monthly net household income. . . ."

Reason for Incorrect Rent Computation

The Authority had received a \$1,000,000 loan from MHFA to renovate the development. The Authority incorrectly believed that one of the provisions of the loan was that the percentage to be used for determining a tenant's rent was 27% of net monthly income. Our review of the related documents disclosed that the actual wording was "not to exceed 27%."

Recommendations

Since certain tenants were paying a higher rent than they should have been charged, we recommended that the Authority recalculate all rents for tenants in the development and reimburse tenants who were overcharged. On December 16, 2013, the Authority performed the recalculation and sent a letter to each of the tenants affected, stating that they would be issued a credit representing the difference between 27% and 25%. Credits totaling \$7,100 were issued to the affected tenants. The Authority should take measures to ensure that its tenants' rents are calculated and charged in accordance with DHCD regulations in the future.

Auditee's Response

The CHA completed a Comprehensive Modernization at a 667 development in March of 2013. Funding for this renovation was from a number of new sources with additional and cumbersome reporting requirements. One of those funding sources was the MHFA / Affordable Housing Trust. This agreement states tenants cannot be charged more than 27%, (of net monthly income) thus rents at this development were calculated at 27%, [which was] later found to be in error. During the course of the audit, CHA conferred with DHCD and received clarification from DHCD that tenants should have paid 25%, not 27%. In addition, the one case mentioned where a tenant was charged 30% of income was discovered to be a computer error by CHA's software company. CHA addressed this with the software company and it was corrected by MCS (software company), without explanation.

All rents were recalculated and credits issued to all tenants of this building during the audit period.

4. The Authority did not maintain handwritten waiting-list ledgers.

The Authority kept electronic waiting-list ledgers instead of the handwritten ones required by DHCD. The Authority used purchased software to determine the order of applicants on the waiting list. As a result, since this software is not approved by DHCD, it may not incorporate adequate internal controls to ensure accurate placement of applicants on the waiting list.

Legal Requirements

According to 760 CMR 5.16(2), LHAs must maintain handwritten ledgers in accordance with guidelines issued by DHCD.

Reason for Noncompliance

According to Authority personnel, electronic waiting-list ledgers were used instead of manual ledgers because they were more trouble-free and timesaving. Authority personnel were not aware that electronic waiting-list ledgers were not in accordance with DHCD regulations.

Recommendations

The Authority should either conform to current DHCD regulations requiring the use of manual waiting-list ledgers or obtain permission from DHCD to use electronic ones.

Auditee's Response

CHA uses a manual (handwritten) waiting list Master ledger [and] a computerized wait list for tenant selection purposes. CHA has requested a waiver from DHCD seeking approval of changes to the eligibility and selection criteria set out in 760 CMR 5.00 and is still awaiting a response as to procedure from DHCD. . . .

If DHCD is unresponsive in giving approvals/permission to local housing authorities to use a computerized waiting list, this means that local housing authorities may need to take steps backwards and revert to a manual system, which is more unreliable, far more administratively burdensome and far more prone to human error. The CHA feels strongly that the computerized system is a more accurate and reliable manner of tenant selection. A timely response from DHCD or change to the regulation would be welcome.

Auditor's Reply

We agree that standards should be established to enable housing authorities to use electronic master file ledgers and waiting-list ledgers as long as they provide the same safeguards that handwritten ledgers were intended to provide. However, to date, DHCD has not granted a waiver to the Authority for the use of its electronic ledgers, and therefore the Authority is out of compliance with the regulations.

5. The Authority had various tenant-selection issues.

The process of tenant selection begins when an applicant completes a DHCD-approved application form for public housing. When the LHA receives the application form, the form is dated and time stamped and the applicant is promptly given a receipt, including a control number. At this time, the

LHA also makes a preliminary determination of eligibility, the applicant is notified of the LHA's preliminary determination, and the applicant's name along with other relevant data, including the assigned control number, is added into the master file ledger² and the appropriate waiting list. When an applicant approaches the top of the waiting list, the LHA makes a final determination of the applicant's eligibility and qualification. An eligible and qualified applicant is offered a unit and must accept the offer within seven days of the date of the written offer. An ineligible or unqualified applicant is notified in writing, and the applicant's name is removed from the waiting list.

In our review of tenant selection, we found the following issues.

a. Control numbers of applicants were not found in the master file ledger.

In two cases out of a sample of 10 new tenants who obtained housing, the control numbers were not found in the master file ledger. As a result, we could not verify that these tenants were not offered housing before qualified applicants who applied earlier.

Legal Requirements

According to 760 CMR 5.16(2), "the LHA shall maintain permanent handwritten ledgers including a master file ledger. . . ." The standard form of master file ledger includes a tenant control number issued at the time of application.

b. Written documentation of landlord reference checks was not found in the tenant files, and/or landlord references were not adequately reviewed.

In six cases out of a sample of 10 new tenants who obtained housing, written documentation of landlord reference checks was not found in the tenant files, and in two cases, there was no indication that landlord references were adequately reviewed. As a result, it is possible that prior occupancy issues, such as nonpayment of rent, might be overlooked.

Legal Requirements

According to 760 CMR 5.12(2),

The LHA shall require an applicant to provide the names and current addresses of all landlords (or housing providers) for applicant and household members during the period five years prior to application through the date of the final determination.

² The master file ledger is a ledger listing information on state aided public housing applicants in chronological order for all state housing programs.

If after request the LHA has failed to receive a reference from a landlord (or housing provider) it shall notify the applicant of non-receipt, and the LHA shall request that applicant use his or her best efforts to cause the landlord (or housing provider) to submit the reference to the LHA. In the event the applicant uses his or her best efforts but is unsuccessful, the applicant shall cooperate with the LHA in securing information from other sources about the tenancy. Non-receipt of a reference from a landlord (or housing provider) shall be cause for determining an applicant unqualified unless the applicant can show that he or she has used best efforts to secure the reference and that he or she has complied with reasonable requests for cooperation in securing other information.

c. The Authority did not document why applicants on the waiting list were skipped.

Although we did not discover any instances where applicants were intentionally skipped over in the waiting list, the Authority does not maintain written documentation of why it may have bypassed an applicant on a list and not offered housing to an earlier, more qualified applicant. Accordingly, to determine why applicants were skipped, the Office of the State Auditor had to discuss each individual case with Authority personnel, examining available documentation, to determine the reasonableness of its selections. Without these records, the Authority is unable to effectively demonstrate that it is offering housing to applicants in accordance with DHCD regulations.

Legal Requirements

According to 760 CMR 5.10(1)(c), “when a unit or rental assistance voucher becomes available, it shall be offered to the applicant for the applicable program with an appropriate household size who has the lowest control number in the highest preference category within the highest priority category.”

Reasons for Tenant-Selection Issues

The foregoing issues were generally caused by human error.

Recommendations

The Authority should take the following actions:

- Assign control numbers to all applicants immediately upon application.
- Provide written documentation of landlord reference checks in the tenant files.
- Clearly note in writing why applicants listed before the selected applicant on the waiting lists were skipped.

Auditee's Response

- 5.a. *Administrative [employee] who enters this information is part time and concurs that this error was an oversight. However, applicants cannot be placed on the waiting list or housed without a control number and Control Numbers are assigned by date of application and via computer automatically.*
- 5.b. *Of the 24 applicants placed at our renovated building, 14 came from family homes and lived with [family members] and had previously owned their own homes and sold them many years before; or they were minorities new to this country who lived with their children and had no prior landlords. There was no traditional landlord where CHA could obtain a landlord reference. Five elders came from a landlord in Town who leased to these individuals on the Section 8 program and who is a landlord that we have a long-term relationship with. Calls were made to this local landlord and he gave all a good verbal reference—this information should have been noted; however, no written documentation was placed in the file. One tenant was a prior resident of the former congregate building prior to renovation and had a "Right to Apply to Return"—the CHA was the former landlord. Two applicants were housed with private landlords and those [landlord] references were documented. One gentleman was in a living situation that was a health and safety issue and the landlord was uncooperative.*

On all applicants, a CORI was requested; a credit report was done; and home visits were done on all. An extensive screening process was done on the new tenants at [Peter Bulkeley Terrace] and it is misleading to state that this was caused by "human error."

...

The CHA will place a written [landlord] reference in the file, even when the reference is a verbal one from a local and familiar landlord.

- 5.c. *When filling the newly renovated building with tenants, about 30 individuals were interviewed and screened. There were 24 units to fill at one time, which is highly unusual. Applicants who were within the top 30 were contacted, interviewed and screened; some refused the unit; some did not respond—this was documented in their files. Because the CHA had not met our minority quota in our elderly public housing, we needed to go further down the wait list to select an out of town minority candidate. All information was documented—no one was "skipped."*

...

Reason why an applicant was not housed was in the file when individual refused a unit; did not respond to an offer; or a minority quota was required. CHA will clearly state why an applicant was not qualified or eligible in the future.

Auditor's Reply

While it was clear from our discussions with Authority personnel that they are aware of the requirements of 760 CMR regarding the use of control numbers, landlord reference checks, and the management of waiting lists, the Authority must better document the procedures it performs in relation to these activities. In our opinion, the lack of documentation we found was caused by

human error. Accordingly, we agree that in the future, the Authority's files should include written documentation of inquiry regarding former landlords (or housing providers) and the rationale for non-qualifying applicants.

6. Our prior audit result regarding noncompliance with DHCD regulations was resolved.

Our current audit showed that the Authority had taken measures to address the two issues we identified during our prior audit. Specifically, our current audit found that the Authority had corrected the parking lot, sidewalk, and roof issues noted at its Chapter 667-2 units for elderly tenants as a part of a complete rehabilitation of the property (Peter Bulkeley Terrace) and that the Authority received \$3 million in matching funds from DHCD to rehabilitate this property. Also, our prior audit found that the Authority's average turnaround time for vacant units had increased from 110 days to 202 days. The Peter Bulkeley Terrace renovation resolved this issue as well.

Auditee's Response

Prior to comprehensive modernization of the Peter Bulkeley Terrace building, this development was a congregate facility—single room occupancy with a toilet in the room. Shared shower, kitchen and living facilities in a 5, 6 or 7 unit "pod" made this a very undesirable type of living situation. The building suffered from years of underfunding and an undesirable type of living situation. There were numerous vacant rooms, which is exactly why this building was renovated. Since the renovation, this development is at 100% occupancy.

APPENDIX

The Balance Sheet

The balance sheet is one of three key financial statements. It shows what an entity owns (assets); what the entity owes (liabilities); and net assets, the difference after liabilities have been deducted from assets. The relationships among assets, liabilities, and net assets, known as the accounting equation, are the backbone of the accounting and reporting system. The accounting equation is central to the understanding of the balance sheet, which is a snapshot of what an entity looks like financially at a moment in time.

If the information presented on the financial statements, including the balance sheet, is not accurate and complete, then stakeholders such as taxpayers, the Department of Housing and Community Development, the board of commissioners, and the Legislature will not be able to rely on the information reported and will not be able to assess and make decisions about the performance of the entity under review.

Assets are the economic resources of the entity and include cash, investments, accounts receivable, inventories, property, and equipment. Assets can be further classified as current (those that can be converted to cash in one year or less) or long term (those that will be converted to cash in a period longer than one year). An important measure of accounting performance is the current ratio, which compares current assets to current liabilities to show the liquidity of the entity. The higher the ratio, the better the entity's position and ability to pay its obligations.

Liabilities are amounts owed to others by the entity that relate to loans, extensions of credit, and other obligations arising in the course of doing business. Liabilities, like assets, can be classified as current or long term and can be used in performance analysis as described above.

Net assets are the owner's interest in the business, the amount that remains after liabilities have been deducted. The categories in the Net Assets section of a housing authority's balance sheet include Net Income/Loss, Investment in Capital Assets, Net of Related Debt, Net Assets—Restricted, and Net Assets—Unrestricted.

GLOSSARY AND ACRONYMS

Accounting Manual for State-Aided Housing Programs: This accounting manual, published by the Department of Housing and Community Development (DHCD), assists local housing authorities (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, consistent with generally accepted accounting principles (GAAP), as prescribed by DHCD. The 2004 edition of the manual replaced the earlier version issued in 1986 and included all updates and changes since 1986.

CFA: Contract for financial assistance. A CFA is an agreement between DHCD and an LHA for the development of new housing. This type of agreement gives a general overview of the scope of the LHA's responsibilities during the development and management periods and specifically details how these responsibilities are to be executed, pursuant to Chapters 23B and 121B of the Massachusetts General Laws.

DHCD: Massachusetts Department of Housing and Community Development. DHCD funds state housing programs and establishes and enforces policies related to those programs.

fixed asset: A long-term tangible piece of property that a government entity owns and uses in the production of its revenue and that is not expected to be consumed or converted into cash in less than one year. Buildings, real estate, equipment, and furniture are good examples of fixed assets.

GAAP: Generally accepted accounting principles. These principles are a collection of commonly followed accounting rules and standards for financial reporting. The Financial Accounting Standards Board promulgates GAAP for nongovernmental entities, and the Governmental Accounting Standards Board promulgates GAAP for state and local government.

GAGAS: Generally accepted government auditing standards. These professional standards are contained in a document titled *Government Auditing Standards*, issued by the Comptroller General of the United States. They provide a framework for conducting high-quality audits and are used by auditors of government entities, entities that receive government awards, and other audit organizations.

LHA: Local housing authority. An LHA is government entity that owns and operates government-funded housing. An LHA may also administer other types of housing programs, e.g., a voucher housing program, which is a government subsidy paid to a private landlord to make housing affordable to low- and moderate-income people.

long-term debt: Loans and financial obligations lasting more than one year. Bank loans and financing agreements, in addition to bonds and notes that have maturities greater than one year, are considered long-term debt.

management plan: An extensive list of policies, practices, procedures, and documents used by an LHA to describe its overall operations. LHAs are required by the terms of the CFA with DHCD to have an approved, up-to-date management plan in place.

MHFA: Massachusetts Housing Finance Agency, a self-supporting not-for-profit public agency that has provided more than \$16 billion in financing for homebuyers and homeowners and for developers and owners of affordable rental housing. The agency does not use taxpayer dollars, but sells bonds to fund its programs. In recent years, the agency also supported the Commonwealth of Massachusetts by contributing funds to offset budget cuts to state housing programs.

(net) monthly rent: In state public housing, the tenant's portion of the monthly rent derived from a percentage of the monthly net household income. The monthly net household income is derived from the annual net household income, which, in turn, is derived from the annual gross household income. The percentage used to determine the (net) monthly rent varies depending on the specific housing program and whether the tenant pays for utilities. The regulations for determining (net) monthly rent are described in 760 Code of Massachusetts Regulations (CMR) 6.00.

operating reserves: LHA funds that are stockpiled for the following three purposes: First, the operating reserve allows LHAs to have funds necessary for their cash flows. Some months more cash is paid out than is received and an LHA therefore needs additional cash to meet its cash-flow needs. Second, the operating reserve can be used to meet emergency situations, such as a major boiler breakdown or roof repairs that have not been anticipated in the budget. Third, the operating reserve is used to fund non-routine expenditures such as the replacement of refrigerators and ranges.

operating subsidies: Because of the number of low-income residents in some LHA developments, rents do not generate sufficient income to cover operating expenses. When LHA income falls short of DHCD's preapproved level, DHCD provides an operating subsidy to cover the balance.

tenant selection: The process of selecting applicants for state public housing, beginning with the application and, if the applicant is determined to be qualified, proceeding to the offer of a unit. The process, which is described in 760 CMR 5.00, includes procedures for processing and selecting applicants, occupancy standards, rejection standards, and an appeal procedure for rejections.