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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
DALTON HOUSING AUTHORITY
OCTOBER 1, 2004 TO SEPTEMBER 30, 2006**

**OFFICIAL AUDIT
REPORT
AUGUST 29, 2007**

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The Dalton Housing Authority was established in 1948 pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided housing project composed of 69 elderly (Chapter 667) and six family (Chapter 705) housing units located in Dalton. In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of certain activities of the Authority for the period October 1, 2004 to September 30, 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. Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the two fiscal years ended September 30, 2006, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. INTERNAL CONTROLS OVER EMPLOYEE PAYROLL AND PERSONNEL RECORDS NEED IMPROVEMENT

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Our review identified that the Authority needs to strengthen its internal controls over employee payroll and personnel records. Specifically, contrary to Department of Housing and Community Development (DHCD) guidelines, the Authority has not accurately documented employees' vacation and sick leave balances or maintained required employee personnel files. Consequently, the Authority under-reported its accrued compensated absences to DHCD for the fiscal year ended September 30, 2006. In its response, the Authority indicated that it has created personnel files and payroll records on all employees in accordance with Section 15 of DHCD's Accounting Manual.

2. LOST OPPORTUNITY TO EARN POTENTIAL INTEREST INCOME

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During the audit period, the Authority maintained an average daily balance of \$49,373 in its revolving account. This account, which the Authority maintains at a local bank, provided interest income at a rate of 0.10% per annum and earned the Authority \$102 during the period from October 1, 2004 to September 30, 2006. However, our review revealed that the Authority could have earned significantly greater interest income by utilizing other investment accounts. In its response, the Authority stated that the Executive Director does realize the need for the Authority to create a more specific plan for monitoring the investments of account balances thus ensuring a higher rate of return on its investments.

3. EXCESSIVE VACANCIES RESULTED IN APPROXIMATELY \$2,583 IN UNEARNED POTENTIAL RENTAL INCOME

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Our audit identified that the Authority did not fill vacant units within the timeframe mandated by DHCD. DHCD mandates that housing authorities shall have vacant units readied for occupancy within 21 business days. However, we found that the Authority

had four units that remained unoccupied for a total of 236 business days beyond DHCD's 21-day limit. Consequently, the Authority lost the opportunity to earn approximately \$2,583 in potential rental income during the audit period. In its response, the Authority indicated that it works hard to ensure that vacant units are ready for occupancy in 14 days from vacancy date and rented within 21 business days of vacancy. In addition, the Authority noted that prospective occupants are contacted immediately after a written notice is received that a tenant is vacating. Finally, the Authority stated that there are often extenuating circumstances whereby a potential tenant requires more than 21 days before assuming occupancy.

4. ANNUAL MEETING NOT CONDUCTED **9**

The Authority's bylaws require that its Board of Directors hold annual meetings for conducting Authority business, including the election of officers. However, during the audit period, the Authority did not conduct an annual meeting or elect officers as required. In its response, the Authority indicated that it will adhere to Chapter 121B, Section 7 of the General Laws. In addition, the Authority stated that an annual election of officers will be conducted at the Authority's June Meeting.

5. PAYMENT IN LIEU OF TAXES AGREEMENT NOT IN PLACE WITH TOWN OF DALTON **9**

In accordance with Chapter 121B, Section 16, of the General Laws, the Authority remits an annual payment in lieu of taxes (PILOT) to the Town of Dalton. For fiscal years 2005 and 2006, the Authority's PILOT payments totaled \$1,963 and \$1,953, respectively. However, contrary to DHCD's Accounting Manual, the Authority did not have a signed, written PILOT Agreement with the Town of Dalton that documents what public services are to be received at no additional expense to the Authority. In its response, the Authority stated that the Executive Director has recreated a PILOT Agreement and the Town Select Board will be asked to sign it.

INTRODUCTION

Background

The Dalton Housing Authority was established on August 19, 1948 pursuant to Chapter 121B of the Massachusetts General Laws. The Authority is composed of 69 elderly (Chapter 667) housing units and six family (Chapter 705) units located in Dalton.

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 Dalton Housing Authority for the period October 1, 2004 to September 30, 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 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 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 re-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.

- 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 two fiscal years ended September 30, 2006 the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. INTERNAL CONTROLS OVER EMPLOYEE PAYROLL AND PERSONNEL RECORDS NEED IMPROVEMENT

Our review found that the Dalton Housing Authority needed to strengthen its internal controls over employee payroll and personnel records. Specifically, we found that the Authority had not accurately documented employee vacation and sick leave balances or maintained required employee personnel files. Consequently, the Authority is not conducting its payroll and personnel activities in accordance with Department of Housing and Community Development (DHCD) guidelines, which caused the Authority to under-report its accrued compensated absences to DHCD for the fiscal year ended September 30, 2006.

DHCD's Accounting Manual for State-Aided Housing Programs is intended to assist 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. Section 8 of DHCD's Accounting Manual states that LHAs are responsible for developing and implementing a system of internal control to safeguard the assets of the organization and ensure the accuracy and reliability of accounting data and 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 leave balances for all employees, as follows.

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 the following:

- Employee's name and address
- Social Security Number

- Job title
- Date of employment
- Salary and/or hourly wage
- Payroll deductions
- Number of dependents
- Emergency contact person

Based upon the Authority's employee benefits policy, employees earn 1¼ days of sick leave for each continuous month of service, and from one to four weeks of vacation leave annually, depending upon the employee's length of continuous service. However, the Authority has not developed employee leave records to accurately account for all leave time earned and taken by its employees. LHAs are required to report to DHCD the value of non-current compensated leave-time balances that will be owed to employees upon their resignation or termination from employment. The Authority compensates employees who resign from service for 20% of the employee's unused sick time. Consequently, as detailed in the table below, the Authority has under-reported its Maintenance Supervisor's sick leave balance to DHCD as of September 30, 2006.

	<u>Hours</u>	<u>Amount</u>	<u>(20%)</u>
Reported Leave Balance	674.5	\$9,470	\$1,894
Actual Leave Balance	<u>746.0</u>	<u>\$10,451</u>	<u>\$2,090</u>
Difference	<u>(71.5)</u>	<u>\$ (981)</u>	<u>\$ (196)</u>

In addition, the Authority's Personnel Policy requires that regular part-time employees receive benefits that include personal and sick leave, vacation time, and holiday pay. However, our review of the Authority's payroll records identified that the Authority's part-time administrative assistant, who works four days/15 hours per week, has never received these benefits. The Authority's Personnel Policy, Section VI, Subsection B, defines a regular part-time employee as follows:

An employee who works less than a normal workweek, as described above, on either a regularly scheduled basis or on an irregular basis and whose employment is not limited by a future date. Such an employee, upon completion of the initial evaluation period, is entitled to benefits as described within.

At the time of our audit, the Executive Director stated that she was unaware of the benefits due to the part-time administrative assistant, but that the matter would be reviewed with the Authority's Board of Directors.

Second, our review found that the Authority does not maintain adequate personnel files for its four employees. As noted above, Section 15 of DHCD's Accounting Manual requires LHAs to maintain an employee record that includes basic employee data such as employee name and address, Social Security number, job title, and date of employment. 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, and disciplinary warnings. 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. By maintaining such information, LHAs can 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 of the Authority's records revealed that a personnel file was not maintained for either the Executive Director or Maintenance Supervisor and that the Authority did not require its two part-time employees to complete the required federal I-9 Forms prior to their employment.

Third, we noted discrepancies between the Authority's Personnel Policy and the Executive Director's employment contract. Based upon Section X of the Personnel Policy (Employee Benefits), the Executive Director is entitled to earn three weeks (or 66 hours) of vacation time annually and 5.5 hours of sick time each month. However, the Executive Director's employment contract stipulates that she earns 60 hours of vacation per year and 5 hours of sick time per month. Our review of the Executive Director's time and attendance sheets disclosed that during the audit period she accrued vacation time in accordance with the Authority's Personnel Policy and sick time hours in accordance with her employment contract.

In addition, neither the Authority's Personnel Policy nor the Executive Director's employment contract specifies the number of hours per week that the Executive Director must work or whether compensatory time is an employee benefit. During the audit period, the Executive Director worked 22 hours per week, and at times earned and used compensatory time. The Executive Director stated

that the Authority's advertisement, which she successfully responded to during 1998, described her position as part time and requiring a 22-hour workweek.

Recommendation

We noted that prior to the conclusion of fieldwork, the Executive Director had taken some corrective action regarding these matters by developing personnel files for each Authority employee. However, the Executive Director, in conjunction with the Board of Directors, should develop (a) procedures to ensure that employee compensated absences are accurately reported to DHCD, (b) an employee compensatory time policy, and (c) a revised Executive Director's employment contract that specifies the Executive Director's workweek and provides vacation and sick time benefits consistent with those published within the Authority's established Personnel Policy. In addition, the Authority should provide the part-time administrative assistant with employee benefits consistent with its Personnel Policy.

Auditee's Response

The Dalton Housing Authority indicated that it has created personnel files and payroll records on all employees in accordance with Section 15 of DHCD's Accounting Manual. The accrual and use of all leave time is now maintained in our computer on Excel. Part-time employees receive benefits that include personal, sick leave, vacation time and holiday pay as per the Personnel Policies. Discrepancies were found between the Executive Director's employment contract and the Personnel Policies around benefit time and hours of employment. The Director's contract period ends December 16, 2007. A new contract will be presented to DHCD reflecting the correct terms of employment as supported by the Board of Directors and the revised Personnel Policies, which have been sent to DHCD for approval.

2. LOST OPPORTUNITY TO EARN POTENTIAL INTEREST INCOME

DHCD's Accounting Manual for State-Aided Housing Programs states that a strong system of internal controls includes proper administrative controls to safeguard the assets of an LHA. Such administrative controls would include the adoption of policies to control the proper investment of funds. In this regard, DHCD's Accounting Manual states, in part:

The primary objective of an investment policy is to invest at the highest rate obtainable all funds in excess of those necessary for the daily operation of the LHA...

The LHA must have a strong system to control cash, know what cash is on hand at all times, and project what funds are in excess of current needs.

Funds available for investment: monies on deposit in the general fund in excess of those monies necessary for the daily operation of the Housing Authority for a period of 90 days

should be considered available for investment. These funds should be invested when the expected yield exceeds amounts received in the general fund.

According to bank records, during the audit period the Authority maintained an average daily balance of \$49,373 in its revolving account, which provided interest income at a rate of .10% per annum and earned the Authority \$102 from October 1, 2004 to September 30, 2006. During the same period, the Authority's investment account in the Massachusetts Municipal Depository Trust earned \$4,515, based upon an average monthly balance of \$71,236 and an average annual interest rate of approximately 3.68%.

As noted above, based upon DHCD's Accounting Manual, the Authority should have implemented procedures to ensure that balances are invested at the highest rate obtainable. However, we found that the Authority has not developed procedures to identify and modify, if necessary, its current (90 days) cash needs. Consequently, the Authority may have lost the opportunity to invest portions of its General Fund into a higher yield investment such as the Massachusetts Municipal Depository Trust.

The Authority's Executive Director stated she planned to work with the Authority's fee accountant and Board of Directors to develop an investment plan that complies with DHCD's Accounting Manual.

Recommendation

The Board of Directors should institute an investment policy by forecasting its cash needs 90 days in advance and to ensure that the Authority's operating funds are deposited into a safe and effective investment vehicle that yields a high rate of interest. Such a policy could increase the amount of interest earned and provide additional working capital for the Authority.

Auditee's Response

In her response, the Executive Director indicated that she realizes the need for the Authority to create a more specific plan for monitoring the investment of account balances, thus ensuring a higher rate of return on its investments.

3. EXCESSIVE VACANCIES RESULTED IN APPROXIMATELY \$2,583 IN UNEARNED POTENTIAL RENTAL INCOME

Our audit identified that the Authority did not fill vacant units within the timeframe required by DHCD. Specifically, DHCD requires LHAs to have vacated units readied for occupancy within 21 business days. However, we found that the Authority had four units that remained unoccupied for a total of 236 business days beyond the 21-day limit. Consequently, the Authority may have lost the opportunity to earn approximately \$2,583 in potential rental income during the period under audit 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	5-C	14	\$10.95	\$ 153.24
667	4-B	8	\$10.95	87.56
667	4-D	6	\$10.95	65.67
705	B-1	<u>208</u>	\$10.95	<u>2,276.65</u>
Total		<u>236</u>		<u>\$2,583.12</u>

After preparing the units for occupancy, the Authority contacted potential tenants from its waiting list. However, various tenant issues prevented the Authority from meeting DHCD's 21-day occupancy rule. The current tenant of unit 5-C delayed occupying that unit in order to provide adequate notice about the impending move to the tenant's former landlord. Also, the 208 excess vacant days for the Chapter 705 unit resulted from the Authority's efforts to convert the single family housing unit into a senior or veteran service center. Consequently, the Authority did not offer the unit to an eligible family until the Authority's management determined that the project was not feasible. DHCD was kept apprised of this matter and acquiesced to the Authority's attempted alternate use of this property.

Recommendation

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

Auditee's Response

The Authority works hard to ensure that vacant units are ready for occupancy in 14 days from vacancy date and rented within 21 business days of vacancy. Prospective Occupants are contacted immediately after a written notice is received that a tenant is vacating. There are often extenuating circumstances whereby a potential tenant requires more than 21 days before assuming occupancy. Pertinent to this specific Audit, the Congregate Building "Farmhouse" has historically presented occupancy problems. A family has since been placed in this building. Attempts at utilizing this building to serve seniors/veterans will not be entertained in the near future due to lack of community interest

4. ANNUAL MEETING NOT CONDUCTED

Chapter 121B, Section 7, of the General Laws states, in part:

A housing or redevelopment authority shall elect from among its members a chairman and a vice-chairman, and may employ counsel, an executive director who shall be ex officio secretary of the authority, a treasurer who may be a member of the authority and such other officers, agents and employees as it deems necessary or proper

In addition, the Authority Bylaws, Article III, Section 2, states:

Annual meetings of the Authority shall be held without notice for the purposes of electing officers, receiving the annual report of the Executive Director, and for the conduct of such other business

However, our review revealed that the Authority did not conduct an annual meeting during the audit period. Moreover, we found no indication that Board of Directors officers were elected during the period.

Recommendation

The Authority members should review its bylaws and comply with the provisions.

Auditee's Response

In its response, the Authority indicated that it will adhere to Chapter 121B, Section 7 of the General Laws. The annual election of officers will be conducted at the Authority's June Meeting.

5. PAYMENT IN LIEU OF TAXES AGREEMENT NOT IN PLACE WITH TOWN OF DALTON

In accordance with Chapter 121B, Section 16, of the General Laws, the Authority remits an annual payment in lieu of taxes (PILOT) to the Town of Dalton. For fiscal years 2005 and 2006, the Authority's PILOT payments totaled \$1,963.35 and \$1,953, respectively. However, we noted that the Authority did not have a signed, written PILOT Agreement with the Town of Dalton

that documents what services are to be received by the Authority in exchange for the PILOT payment.

Section 15 (G) of DHCD's Accounting Manual states:

LHAs may make Payment In Lieu of Taxes (PILOT) in accordance with the applicable provision of the "PILOT Agreement" with the local taxing body for certain management projects.

Local housing authorities should actively monitor the services and charges resulting from a PILOT Agreement. In this regard, Section 15 (G) of the Accounting Manual further states:

The housing authority should determine that all public services provided for in the PILOT Agreement are being received at no additional expense. If there are any such authority expenditures, the PILOT should be reduced to reflect these payments.

During the audit, the Executive Director made several attempts to locate the PILOT Agreement both at the Authority and at Town Hall, but to no avail.

Recommendation

The Authority should develop a PILOT Agreement that will reflect the services to be provided by the Town of Dalton as consideration for a PILOT payment. The Authority should then present the PILOT Agreement to the Town of Dalton for its authorized execution.

Auditee Response

In her response, the Executive Director indicated that she has recreated a PILOT Agreement and the Town Select Board will be asked to sign it. The town felt that an Agreement probably exists deep in its archives, but neither the town nor the Authority has been able to produce this document.