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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
DUDLEY HOUSING AUTHORITY
FEBRUARY 1, 2006 TO APRIL 30, 2008**

**OFFICIAL AUDIT
REPORT
SEPTEMBER 8, 2008**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Dudley Housing Authority for the period February 1, 2006 to April 30, 2008. 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 27-month period ended April 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

3

1. IRS 1099-MISC INCOME INFORMATION FORM NOT PREPARED FOR CERTAIN AUTHORITY CONTRACTORS

3

Our review determined that due to an oversight, the Authority did not issue an Internal Revenue Service (IRS) 1099-MISC income information form to one independent contractor who was paid \$5,023.50 during calendar year 2005 and \$4,178 during calendar year 2006 for services.

The Authority responded that they have issued and mailed the appropriate 1099-MISC forms to the independent contractor for 2005 and 2006.

2. INADEQUATE INVENTORY CONTROLS

3

Our review of the Authority's internal controls over inventory determined that the Authority was not in compliance with established inventory controls procedures over furniture and equipment. Specifically, the Authority did not have a complete listing of its property and equipment, did not reconcile its inventory records to its financial statements, and did not conduct an annual inventory.

The Authority responded that it is in the process of completing the inventory requirements. All furniture and equipment has been tagged, and the Authority is in the process of completing an updated list of all inventory items which will be reconciled to its financial records. The Authority further stated that in the future, annual audits of inventory listings will be performed.

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 Dudley Housing Authority for the period February 1, 2006 to April 30, 2008. 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 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 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.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended April 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. IRS 1099-MISC INCOME INFORMATION FORM NOT PREPARED FOR CERTAIN AUTHORITY CONTRACTORS

Our review of the Dudley Housing Authority determined that due to an oversight, the Authority did not issue an Internal Revenue Service (IRS) 1099-MISC income information form to one independent contractor who was paid \$5,023.50 during calendar year 2005 and \$4,178 during calendar year 2006 for services. For each contractor paid over \$600 during a calendar year, IRS regulations require entities to prepare and file with the IRS a 1099-MISC form that details the name of the contractor, federal reporting number, and amount paid. By not adhering to the IRS requirement, the Authority could be subject to unnecessary penalties and interest. We brought this matter to the attention of the new Executive Director, who indicated that she will be instituting new procedures to ensure that all required 1099-MISC forms are issued in the future.

Recommendation

The Authority should correct its IRS filings for 2005 and 2006 and issue 1099-MISC forms to the contractor. Also, in the future, the Authority should ensure that all 1099-MISC income forms are properly prepared and filed with the IRS in a timely manner.

Auditee's Response:

The Dudley Housing Authority has issued and mailed the appropriate 1099-Misc to the independent contractor for years 2005 and 2006.

2. INADEQUATE INVENTORY CONTROLS

Our review of the Authority's internal controls over inventory determined that the Authority was not in compliance with established inventory control procedures over furniture and equipment. Specifically, we found that, contrary to Department of Housing and Community Development (DHCD) guidelines, the Authority did not have a complete listing of its property and equipment, did not reconcile its inventory records to its financial statements, and did not conduct an annual inventory. DHCD's Accounting Manual for State-Aided Housing Programs, Section 15D, requires the following inventory procedures:

- Furniture and equipment record cards or a computerized list should be established and maintained.
- All equipment should be tagged with an assigned asset number.

- A physical inventory of all furniture and non-expendable equipment inventory must be taken each year.
- Once the inventory value is established, an accounting entry should be prepared for the Authority's financial records.

As a result of this noncompliance with DHCD's inventory control procedures, the Authority's financial statements may not reflect the correct values for its property and equipment, and there is inadequate assurance that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

When we discussed this matter with the Executive Director, she stated that she was unaware of DHCD's policies and procedures regarding inventory control. However, she also indicated that she has been keeping a list of new purchases with tag numbers, date of purchase, old tag number of the item if replaced, and the purchase price, and that she has contacted DHCD to request copies of their inventory policies and procedures.

Recommendation

The Authority should ensure that its inventory control procedures are in full compliance with DHCD requirements by establishing a comprehensive inventory listing, tagging all furniture and equipment, conducting a complete inventory annually, and reconciling the inventory list to its financial records.

Auditee's Response:

The Dudley Housing Authority is in the process of completing the inventory requirements. All furniture and equipment has been tagged, and we are in the process of completing an updated list of all inventory reconciling to our financial records. Going forward, an annual audit of our inventory listing will be performed.