



Commonwealth of Massachusetts
Office of the State Auditor
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Official Audit Report – Issued July 13, 2012

Dudley Housing Authority

For the period May 1, 2008 through June 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

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 May 1, 2008 through June 30, 2011. The objectives of our audit were to review and analyze the Authority's management controls and practices over certain areas and functions for the purpose of determining their adequacy and to review the Authority's progress in addressing the issues noted in our prior audit report (No. 2008-0970-3A).

Based on our review we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period May 1, 2008 through June 30, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

Highlight of Audit Findings

- Our follow-up review of the Authority found that it had resolved prior audit issues by issuing Internal Revenue Service Forms 1099-MISC for its independent contractors and establishing inventory procedures over its furniture and equipment.
- Our review of the Authority's Management Plan, which was created in 1981, showed that although the plan had the necessary components (e.g., organization, personnel policies, job descriptions, Department of Housing and Community Development regulations), there was no indication that it had been adequately updated since 1981.

Recommendations of the State Auditor

- The Authority should implement procedures to ensure that its Management Plan is routinely updated.

OVERVIEW OF AUDITED AGENCY

The Dudley Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority, which is located at 22 Joshua Place in Dudley, has 80 one-bedroom apartments at Joshua Place for elderly and handicapped residents (Chapter 667) and eight one-bedroom special needs housing units (Program 689) at Schofield Avenue.

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 May 1, 2008 through June 30, 2011. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivables; (5) site inspections; (6) payroll, travel, and fringe benefits; (7) disbursements; (8) inventory controls over property and equipment; (9) contract procurement; (10) cash management and investment practices; (11) Department of Housing and Community Development (DHCD)-approved budgets versus actual expenditures; (12) level of need for operating subsidies and operating reserves; and (13) off-line housing units. We also conducted a follow-up review of the Authority's progress in addressing the issues noted in our prior audit report (No. 2008-0970-3A).

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

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with DHCD regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to verify that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition and to

determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.

- Procedures for making payments for payroll, travel, and fringe benefits to verify compliance with established rules and regulations.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD 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 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.
- The number of off-line housing units, the length of time each unit has been off-line, and the Authority's plans for moving the units on-line.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2008-0970-3A).

Based on our review we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period May 1, 2008 through June 30, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT FINDINGS

1. PRIOR AUDIT RESULTS RESOLVED

We conducted a follow-up review of our prior audit of the Dudley Housing Authority (No. 2008-0970-3A), which covered the period February 1, 2006 through April 30, 2008, and found that the Authority has satisfactorily resolved the issues reported in our prior audit relating to (a) issuance of Internal Revenue Service (IRS) Form 1099-MISC to independent contractors and (b) inventory controls.

a. IRS 1099-MISC Income Information Forms Issued

Our prior review determined that, due to an oversight, the Authority had not issued an IRS Form 1099-MISC to one independent contractor who was paid \$5,024 during calendar year 2005 and \$4,178 during calendar year 2006 for services. Our follow-up review found that the Authority issued Form 1099-MISC to the independent contractor for calendar years 2005 and 2006 and currently issues Forms 1099-MISC to all independent contractors.

b. Inventory Controls Improved

Our prior review determined that the Authority needed to improve its inventory controls over property 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.

Our follow-up review indicated that the Authority had improved its inventory control procedures. Specifically, the Authority had tagged all furniture and equipment, updated its list of all inventory items, and reconciled this list to its financial records. In addition, the Authority now performs a complete physical inventory annually.

2. MANAGEMENT PLAN NEEDS UPDATING

Our review of the Authority's Management Plan, which was created in 1981, showed that although the plan had the necessary components (e.g., organization, personnel policies, job descriptions, Department of Housing and Community Development [DHCD] regulations), there was no indication that it had been adequately updated since its creation. In fact, we noted that the plan included outdated DHCD regulations. Regular documented updates are important

in order to reflect changes in the Authority's policies, procedures, and scope of operations. Moreover, an updated and complete Management Plan provides the basis for establishing and maintaining the systems necessary for the proper administration of public housing, as well as implementing a system of internal control and ensuring compliance with DHCD's internal control requirements.

Section 8 of DHCD's Accounting Manual for State-Aided Housing Programs states, in part:

The management of each Local Housing Authority [LHA] is responsible for developing and implementing a system of internal control which will:

Safeguard the assets of the organization.

Assure the accuracy and reliability of accounting data.

Promote operational efficiency.

Encourage adherence to prescribed Managerial Policies, State Statutes, and DHCD Rules and Regulations.

Additionally, 760 Code of Massachusetts Regulations (CMR) 4.00, General Administration of Local Housing Authorities, Section 4.03, states, in part:

From time to time the Department may develop and issue guidelines and/or standard forms to be used by the LHA in connection with the provisions of 760 CMR 4.00, 500, 6.00, 800, 11.00, 49.00, and 53.00 and with reports required by the Department. Each LHA shall employ the current guidelines and the current forms.

Furthermore, 760 CMR 5.16 states, in part:

It is the responsibility of each LHA to ensure that it is adhering to the current guidelines and utilizing all current forms.

Recommendation

The Authority's Management Plan should be routinely updated and include all applicable and up-to-date Authority and DHCD policies and procedures. In addition, the Authority's Board of Directors should review and approve all such changes.

Auditee's Response

The Dudley Housing Authority is in the process of updating the Management Plan. It will be an on-going process with policies and procedures reviewed and approved by the Dudley Housing Authority Board of Directors.