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

Making government work better

Official Audit Report – Issued July 30, 2015

Easton Housing Authority

For the period April 1, 2012 through March 31, 2014

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

Making government work better

July 30, 2015

Mr. Dennis Sheedy, Chair
Easton Housing Authority
Parker Terrace
North Easton, MA 02356

Dear Chairman Sheedy:

I am pleased to provide this performance audit of the Easton Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, April 1, 2012 through March 31, 2014. 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 Easton Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

CAO	chief administrative officer
DHCD	Department of Housing and Community Development
IRS	Internal Revenue Service
OSC	Office of the State Comptroller

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 Easton Housing Authority for the period April 1, 2012 through March 31, 2014. The objectives of our audit were to review and analyze the adequacy of the Authority's internal 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 addressing the issues noted in our prior audit report (No. 2010-0648-3A).

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 **Page 9**	The Authority incorrectly allocated a net amount of $3,746 to its state programs.
Recommendations **Page 9**	1. The Authority's management should take the measures necessary to ensure that its fee accountant is provided with all approval letters from the Department of Housing and Community Development (DHCD) for these contracts. 2. The Authority should correct its financial records for the fiscal years in question to reflect the proper allocation of these costs.
Finding 2a **Page 11**	The Authority was still not reoccupying units within DHCD's recommended 21-day timeframe and may have forgone as much as $6,074 in rental income as a result.
Recommendations **Page 12**	1. The Authority should take whatever measures it can to continue to reduce the turnaround time of its vacant units. 2. The Authority should document the reasons for delays in filling vacant units in its quarterly reporting to DHCD. 3. The Authority should request waivers for units vacant more than 60 days in accordance with DHCD's vacancy policy effective January 1, 2013.
Finding 2b **Page 13**	The Authority had begun performing an annual inventory of some assets, but not all. It also had not developed written inventory policies and procedures, and some aspects of its inventory record were incorrect.
Recommendations **Page 14**	1. The Authority should develop and implement written inventory-control policies and procedures, based on the requirements outlined in the DHCD Accounting Manual, to control its inventory adequately. 2. The Authority should review and update the inventory asset list to ensure that it is accurate, properly valued, and complete. 3. The Authority should perform an annual physical inventory of all fixed assets, reconcile it to the amount on the balance sheet and the inventory list, and update the list as required.

Finding 2c **Page 15**	The Authority had written off $12,955 out of a total of $13,419 in uncollectible accounts receivable discussed in our previous report. However, it had not written off the remaining $464, and there was a $1,221 variance in its financial records. In addition, the Authority had not developed policies and procedures for managing former tenants' uncollectible balances.
Recommendation **Page 16**	The Authority should establish formal written policies and procedures to ensure that its accounts-receivable balances are current and that all accounts it deems uncollectible are written off, subject to the approval of the Authority's board.
Finding 2d **Page 16**	The Authority still had not written formal policies and procedures for managing cash received from its coin-operated laundry machines, though it had implemented some informal controls.
Recommendation **Page 17**	The Authority should formally document, and obtain board approval of, policies and procedures for managing laundry receipts and then put controls in place to ensure that they are implemented.
Finding 2e **Page 18**	The Authority had developed controls over employee reimbursement, but had not written formal policies and procedures in this area.
Recommendation **Page 19**	The Authority should establish written policies and procedures for employee reimbursement.
Finding 2f **Page 19**	The Authority had begun issuing Internal Revenue Service (IRS) Form 1099-MISC to its vendors as recommended in our previous audit report. However, it had not issued those forms for 2009, the year for which we originally noted that it had not done so.
Recommendations **Page 20**	1. The Authority should again review its records to determine whether it can obtain the necessary financial information to issue the required IRS 1099-MISC forms for the contractors in question for calendar year 2009. 2. The Authority should continue to issue the required IRS 1099-MISC forms each year.
Finding 3 **Page 20**	The Authority resolved issues identified in our previous audit, including issues related to maintenance, board governance, and recordkeeping.

OVERVIEW OF AUDITED ENTITY

The Easton Housing Authority is authorized by, and operates under, Chapter 121B, Section 3, of the Massachusetts General Laws and the Department of Housing and Community Development's regulations (Title 760 of the Code of Massachusetts Regulations). The Authority operates 104 one-bedroom units at Parker Terrace, 80 one-bedroom units for elderly/handicapped residents at Elise Circle, and 1 two-bedroom and 9 three-bedroom units for families at various locations. It also administers 84 federal Section 8 housing units.

A five-member board of commissioners is responsible for governance of the Authority. Four of the board members are elected and one member is appointed by the Governor. Since November 1, 2010, the Authority has entered into annual contracts with the Mansfield Housing Authority for management services. Under this agreement, the executive director of the Mansfield Housing Authority is the part-time chief administrative officer of the Easton Housing Authority. The Easton Housing Authority also employs two full-time administrative staff members, two full-time and two part-time maintenance workers, and an outside fee accountant.

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 Easton Housing Authority for the period April 1, 2012 through March 31, 2014.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Authority have adequate controls over its financial operations, including reasonableness of administrative expenses, credit-card expenditures, employee reimbursements, payroll and benefits, and cash controls?	**Yes**
2. Did the Authority have adequate controls over eligibility determinations, tenant selection, rent determinations, and annual rent redeterminations?	**Yes**
3. Did the Authority have adequate controls over procurement of goods and services, contracting, and leasing?	**Yes**
4. Did the Authority have adequate controls over fixed assets, depreciation, and inventory controls over supplies, furniture, and equipment?	**No; see Finding 2b**
5. Did the Authority have adequate controls over site inspections to ensure that all units were inspected at least annually to ensure safe and sanitary living conditions as required by the State Sanitary Code?	**Yes**
6. Did the Authority comply with the Department of Housing and Community Development's (DHCD's) financial reporting and data collection requirements?	**Yes**
7. Did the Authority have adequate controls over the turnaround of vacant units to ensure that vacant units were refurbished and reoccupied within 21 working days in accordance with DHCD's Property Maintenance Guide?	**No; see Finding 2a**

Objective	Conclusion
8. Did the Authority have adequate controls over the collection of rent and other revenue and the management of accounts receivable?	**No; see Finding 2c**
9. Did the Authority have adequate controls over the expenditure of Community Preservation Act funds to ensure compliance with applicable laws?	**Yes**
10. Was the allocation of applicable costs between state programs (under DHCD) and federal programs (under the Department of Housing and Urban Development) accurately prorated?	**No; see Finding 1**
11. Did the Authority take appropriate corrective action on audit findings and recommendations from the prior audit report in the following areas?	
a. vacant units not reoccupied within DHCD guidelines	**No; see Finding 2a**
b. official written property maintenance plan not followed	**Yes**
c. inadequate expenditure controls	**Yes**
d. Employee Reimbursement Form deficiencies	**No; see Finding 2e**
e. contract register not maintained for modernization projects	**Yes**
f. lack of furniture and equipment inventory controls	**No; see Finding 2b**
g. insurance register not maintained	**Yes**
h. inadequate controls over tenant accounts receivable	**No; see Finding 2c**
i. inadequate controls over credit-card expenditures	**Yes**
j. rent redeterminations calculated incorrectly	**Yes**
k. inadequate controls over laundry receipts	**No; see Finding 2d**
l. flawed tenant-selection process	**Yes**
m. certificates of insurance not obtained	**Yes**
n. Internal Revenue Service Miscellaneous Income Form 1099-MISC not issued for 2009	**No; See Finding 2f**
o. lack of proper procurement procedures	**Yes**
p. fee accountant not satisfactorily performing duties	**Yes**
q. lack of security over records	**Yes**
r. noncompliance with the State Sanitary Code	**Yes**

Objective	Conclusion
s. septic-system repairs needed	**Yes**
t. tenant pet deposits not properly accounted for	**Yes**
u. check numbers not accurately recorded	**Yes**
v. purchase-order policy not followed	**Yes**
w. noncompliance with work-order policy	**Yes**
x. incomplete personnel folders	**Yes**
y. noncompliance with policies and procedures for employee leave accrual	**Yes**

To accomplish our objectives, we performed the following audit procedures:

- We reviewed 46 of the 1,098 expenditures paid for by the Authority during our audit period for various types of expenses, including general operating expenses and travel and credit transactions, for appropriateness, completeness, and compliance with established policies.

- We selected a sample of 22 out of 56 new tenants to verify that they were selected in accordance with DHCD regulations. Additionally, we tested these tenants' initial rent determinations and annual rent redeterminations to verify that rents were calculated accurately and in accordance with DHCD guidelines.

- We examined the Authority's vacancy records to determine whether it had adhered to DHCD procedures for preparing and filling vacant housing units. We calculated potential lost revenue for all vacant units and estimated fees to be charged by DHCD.

- We reviewed tenant accounts-receivable balances to determine whether rent collections were timely and whether uncollectible tenant accounts-receivable balances were properly managed.

- We accompanied the Authority's staff on site inspections, observing the inspections and reviewing records to verify compliance with the inspection requirements of 105 Code of Massachusetts Regulations 410 and to determine whether selected housing units, including units discussed in our prior audit, were in safe and sanitary condition. We reviewed selected maintenance work orders for repairs identified during the current inspection to determine whether those repairs were performed in a timely manner.

- We tested 30 of 574 payroll transactions to determine whether payroll was paid at the correct rate to Authority employees for the work performed, correct taxes were withheld and remitted to the appropriate tax agencies, payroll transactions were accurately recorded, and all applicable payroll forms were on file.

- We reviewed cash management and investment practices to verify that the Authority had proper safeguards over cash to prevent loss, that it maximized its interest income, and that its deposits were fully insured.

- We tested 52 out of 571 property and equipment items from the Authority's inventory list and determined the adequacy of the Authority's controls to protect, and account for, its assets in accordance with DHCD regulations.

- We reviewed all service providers to determine whether they had current contracts on file with the Authority.

- We reviewed the documentation the Authority maintained for all procurements over $25,000 it made during the audit period to determine its compliance with applicable procurement requirements.

- We verified and reviewed DHCD-approved operating budgets for fiscal years 2013 and 2014 and compared them with actual expenditures as of the end of our audit period.

- We reviewed the adequacy of procedures in effect to collect financial and operational data and determined whether required reports were submitted to DHCD in a timely manner.

- We determined whether the Authority had received Community Preservation Act money and, if so, whether it had expended the money in accordance with applicable statutory and DHCD requirements.

- We reviewed the Authority's cost-allocation method to determine whether it was appropriate, reasonable, and accurate.

- We reviewed our previous audit report (No. 2010-0648-3A) and any measures taken by the Authority to address the findings in that report.

We obtained an understanding of the internal controls we deemed significant within the context of our audit objectives through inquiries of knowledgeable employees; observations of activities; and review of policies, procedures, and board meeting minutes. With regard to the internal controls we deemed significant within the context of the audit objectives, we assessed whether the controls had been properly designed and were operating as management expected. We performed procedures designed to obtain sufficient, appropriate evidence to support our assessment of the effectiveness of these internal controls.

The Authority uses a Web-based application system for tenant selection and vacancy tracking and a financial application for managing accounts payable. However, we determined that information-system controls were not an integral part of the Authority's internal controls. Accounting information was accumulated and forwarded to the fee accountant, who checked its accuracy before entering it in the

Authority's records. We also interviewed the Authority's chief administrative officer about access controls to both applications to obtain an understanding of these controls. Therefore, we did not consider it necessary to evaluate information-system controls. When performing our audit, we relied on hardcopy source documents, which we tested for accuracy and completeness. Because of the relatively small sizes and varied characteristics of the sample populations, we applied a non-statistical approach whenever sampling was used. As a result, the results from our sample could not be projected to the population.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Authority incorrectly charged $3,746 of management fees to its state-funded programs.

In November 2010, the Authority entered into an annually renewed five-year contract with the Mansfield Housing Authority under which the executive director of the Mansfield Housing Authority would provide management services as the part-time chief administrative officer (CAO) of the Easton Housing Authority. Since the Easton Housing Authority operates both state and federally sponsored programs, the Department of Housing and Community Development (DHCD) approved this contract and established how much of the costs associated with the CAO's services should be allocated to state programs. However, the Easton Housing Authority did not establish adequate controls to ensure that its staff followed the prescribed allocation method for these costs. As a result, the Authority did not accurately allocate these costs for fiscal years 2013 and 2014, resulting in a net overcharge of $3,746 to its state programs, as follows:

- The total amount of expenses incurred under this contract in fiscal year 2013 was $64,308, and the amount allocated to state programs by the fee accountant was $42,291. However, the amount that should have been allocated was $42,443, meaning the Authority undercharged $152 to its state programs.
- The total amount of expenses incurred under this contract in fiscal year 2014 was $68,349, and the amount allocated to state programs by the fee accountant was $49,008. However, the amount that should have been allocated was $45,110, meaning the Authority overcharged $3,898 to its state programs.

Authoritative Guidance

DHCD's approval letter for this contract specifies that 66% of the costs associated with these contracts should be charged to state programs.

Reasons for Incorrect Cost Allocation

According to the Authority's fee accountant, he was not aware of DHCD's approved cost allocation.

Recommendations

1. The Authority's management should take the measures necessary to ensure that its fee accountant is provided with all DHCD approval letters for these contracts.

2. The Authority should correct its financial records for the fiscal years in question to reflect the proper allocation of these costs.

Auditee's Response

DHCD approved the Fiscal Year 2014 Budget and approved the management fees as follows: State 400-1 Program $49,006 (71.7%), Section 8 HCV Program $19,343 (28.3%) for a total Management Fee of $68,349. The change from 66% to 71.7% was due to a change in the Section 8 HCV units from 101 to 84 to reflect the actual size of the Section 8 HCV program. Additionally, the State 400-1 program units were changed from 194 to 213 (based on bedrooms) to incorporate the impact of the larger family units and their additional bedrooms. The Easton Housing Authority disputes this finding as the changes we have detailed were approved by DHCD and the charges to the State Program were correct as approved by DHCD.

Auditor's Reply

The Authority's method of allocating the cost of its management fees to its state programs during fiscal year 2014 was not consistent with the requirements of its contract with DHCD. As noted above, DHCD's approval letter for this contract (which covers a five-year period that includes fiscal year 2014) specifies that 66% of the costs associated with these contracts should be charged to state programs. This percentage appears to have been based on the ratio of the Authority's 194 state units to its 295 total units (its other 101 units were federal). From the inception of this contract in 2010 through the end of fiscal year 2013, the Authority allocated no more than 66% of the management fees to its state programs. However, in the fiscal year 2014 budget it submitted to DHCD, the Authority increased the percentage of the management fees that were to be allocated to its state programs to 71.7% based on a new formula. This new formula considered the number of available bedrooms in the Authority's state units, rather than the number the units themselves, in the ratio calculation, a departure from previous practices. Further, although the Authority has 101 federal units under contract, its fiscal year 2014 budget did not use 101 for the allocation formula but rather 84, which was the number of federal units that were recorded as leased at the time, not the total number of federal units under contract. We question whether using 84 was the best method, since the number of leased units can continually change during a fiscal year, affecting the equity of this method.

While the Authority may believe that this new method was a more equitable way of allocating these costs, using it resulted in a higher percentage of its management fees being allocated to its state programs than what DHCD had authorized. Consequently, we again recommend that the Authority correct its financial records for the fiscal years in question to reflect the proper allocation of these costs.

If the Authority believes, as it states in its response, that DHCD in effect approved a change to the contractual requirement by approving its fiscal year 2014 budget, it should contact DHCD and ask the department to review the two allocation methods the Authority has used under this agreement and inform it in writing which method it should use.

2. Prior Audit Results Unresolved

a. Vacant units were not reoccupied within DHCD guidelines.

Our prior audit revealed that, contrary to DHCD guidelines, the Authority's average turnaround time for reoccupying vacant units was 127 days, resulting in the loss of the opportunity to earn $94,940 in rental income during the audit period. The Authority indicated that lengthy vacancies were due to a maintenance staff shortage. We recommended that the Authority document the reasons for delays in filling vacant units, regularly monitor the turnaround process to ensure compliance with DHCD guidelines, and seek waivers from DHCD for units that could not reasonably be reoccupied within the standard timeframe.

During the current audit period, the Authority had a total of 55 vacant units in its state-aided housing programs for elderly tenants and families, of which 19 units were vacant for longer than the 21 days specified in DHCD's guidelines. The units were vacant for an average of 31 days. As a result, the Authority may have lost as much as $6,074 in potential rental income, and eligible applicants in need of state-aided housing may have not been placed in housing on a timely basis.

Details of the vacancies are as follows:

State Housing Program	Average Daily Rent	Number of Vacant Units	Total Number of Days Vacant over 21	Potential Lost Income
Elderly Housing	$12.41	51	241	$2,990
Family Scattered Sites	$12.64	4	244	3,084
Total		55	485	$6,074

We obtained the above information from the Authority's vacancy ledger and checked it against the vacancy information filed with DHCD. It excludes one family-housing unit that had been vacant more than 60 days and had a waiver of the 21-day guidelines from DHCD.

In addition, the Authority also did not seek available waivers from DHCD for all units that could not be reasonably reoccupied within the standard timeframe, as recommended in the prior audit. Finally, the Authority was not documenting the reasons for delays in filling vacancies, but we note that it is not required to do so.

Authoritative Guidance

Chapter 1 of DHCD's Property Maintenance Guide states, in part,

> *[DHCD] believes a reasonable outside limit for turning around vacancies is 21 working days where notice has been given. . . . This calculation of time includes all days from the first date on which rent is not collectible (either legally or practically) until the first day on which rent payments resume under the new lease. The maintenance portion of the vacancy process should not take longer than 14 days. Many vacancies should take far less time, such as routine vacancies in elderly buildings, and some will take substantially more. The 21 days should be seen as a good target for your average turnaround time.*

DHCD's Public Housing Notice 2013-07 states, in part,

> *Given the pressing state-wide need for affordable housing and the high cost to taxpayers of emergency housing, it is essential to ensure that all state public housing resources are being utilized to their maximum capacity. Therefore all [local housing authorities, or LHAs], including surplus LHAs (those that do not receive an operating subsidy), must continue to keep their ledgers current and submit their quarterly vacancy reports, and must request waivers for units vacant more than 60 days.*

Reasons for Delays

The Authority indicated that delays in filling vacancies were primarily due to multiple vacancies occurring at the same time and offers of housing not being accepted by potential tenants (requiring the Authority to restart the process with a new potential tenant) and that it had not always requested waivers from DHCD because it could not justify the request.

Recommendations

1. The Authority should take whatever measures it can to continue to reduce the turnaround time of its vacant units.
2. The Authority should document the reasons for delays in filling vacant units in its quarterly reporting to DHCD.
3. The Authority should request waivers for units vacant more than 60 days in accordance with DHCD's vacancy policy effective January 1, 2013.

Auditee's Response

The Authority has drastically reduced the turnaround time of its vacant units since the prior audit was conducted and we continue to strive to turnaround units within the 21-day guideline. For Fiscal Year 2015 there were only six [elderly-housing] units over the 21-day guideline averaging 26 working days vacant and there were no [family-housing] units vacant beyond the 21-day guideline. Of the six units over the 21-day turnaround guidelines for Fiscal Year 2015, five units were vacant under 30 work days and only one unit was over 30 work days, vacant for 41 work days.

b. The Authority lacked inventory controls over furniture and equipment.

During our prior audit, we found that the Authority had not established adequate internal controls over its inventory of furniture and equipment to ensure compliance with DHCD requirements in this area. Specifically, there were no written policies and procedures for maintaining inventory records to include tagging of items, annual inspection of equipment and physical inventory, and reconciliation to accounting records. Moreover, the Authority did not have a complete list of furniture and equipment; furniture and equipment were not reconciled to the Authority's financial records/statements; the Authority's list of property and equipment that had been disposed of was out of date; and the Authority had no record of the last annual physical inventory taken. We recommended that the Authority ensure that its inventory-control procedures fully complied with DHCD requirements by establishing a comprehensive inventory list, tagging all furniture and equipment, conducting a complete physical inventory annually, and reconciling the inventory to its financial and inventory records.

During our current audit, we found that the Authority had assigned tag numbers to all of its assets and was conducting an annual physical inventory of some of its assets, including its stoves and refrigerators. However, the Authority had not developed written policies and procedures to ensure compliance with DHCD's inventory-control requirements. Further, the Authority was not conducting an annual physical inventory of all of its furniture and equipment as required by DHCD, was not reconciling its inventory list to its financial and equipment records, did not remove one asset from the inventory record after it was disposed of, and did not assign correct values to all the equipment listed in its inventory.

Authoritative Guidance

Section 8 of DHCD's Accounting Manual recommends that the management of each Authority develop and implement a system of internal controls that will safeguard its assets. The same section states that it is important for each housing authority to observe certain "fundamental requirements," including "the use of forms, documents, and procedures which facilitate control and provide for proper approvals."

Additionally, Section 15(D) of DHCD's Accounting Manual for State-Aided Housing Programs requires the inventory procedures excerpted below:

> 1. *A physical inventory of all Furniture and Non-expendable Equipment <u>must be taken</u> and an inventory list maintained each year.*
>
> 2. *Physical inventory results must be compared to equipment record and any differences and discrepancies will be reviewed by the LHA for possible adjustments. . . .*
>
> *[Housing authorities must] establish the original cost (or fair market value) of all equipment purchased with State Program funds that is presently known to exist. The establishment of what <u>presently exists</u> will be the result of researching the past purchases of equipment per charges to the operating reserve and actually taking an inventory of what is currently at the LHA.*

Reasons for Insufficient Controls

Authority officials stated that they believed they had adequately addressed the concerns raised in our last audit and that the Authority's current inventory process complied with DHCD requirements.

Recommendations

1. The Authority should develop and implement written inventory-control policies and procedures, based on the requirements outlined in the DHCD Accounting Manual, to control its inventory adequately.

2. The Authority should review and update the inventory asset list to ensure that it is accurate, properly valued, and complete.

3. The Authority should perform an annual physical inventory of all fixed assets, reconcile it to the amount on the balance sheet and the inventory list, and update the list as required.

Auditee's Response

The Authority will review and update the inventory list to ensure it is accurate and perform annual physical inventory of all fixed assets.

c. The Authority's controls over former tenants' balances were inadequate.

Our prior audit report disclosed that the Authority had inadequate controls over tenant accounts-receivable balances totaling $13,419 that it deemed uncollectible. We recommended that the Authority develop written policies and procedures for former tenants' uncollectible accounts and that its board of commissioners approve the write-off of these account balances.

During our current follow-up audit, we found that $12,955 of the $13,419 identified in the prior audit had been written off, with board approval. However, because of an oversight, the remaining balance of $464 had not been presented to the board for approval. We also found that the Authority had not developed and documented policies and procedures for managing former tenants' uncollectible balances as recommended in the prior audit. The Authority's financial records had a total tenant accounts-receivable balance of $13,689, comprising a current balance of $2,760, uncollectible former tenants' balances totaling $9,708 (the oldest dating back to July 2007), and an unexplained variance of $1,221 dating back to fiscal year 2002. We found that the tenants' accounts-receivable balance recorded in the general ledger and reported on the balance sheet (in the amount of $13,689) did not agree with the Authority's accounts-receivable subsidiary ledger (the detailed record for each tenant), which totaled $12,468 as of March 31, 2014. The unexplained variance of $1,221 was removed from the total balance before the end of our audit.

The absence of adequate controls over tenant accounts-receivable balances can result in the Authority reporting inaccurate information in its financial statements.

Authoritative Guidance

DHCD states in its Accounting Manual that management of each Authority is responsible for developing and implementing a system of internal controls supported by documented policies and procedures. According to Section 6 of the Accounting Manual, the accounts-receivable subsidiary ledger must reconcile to the accounts-receivable balance on the balance sheet and the tenant control account on the general ledger.

Reasons for Inadequate Controls

The Authority had not made it a priority to develop policies and procedures to ensure that uncollectible receivable amounts were presented to the board in a timely manner to be written off.

Recommendation

The Authority should establish formal written policies and procedures to ensure that its accounts-receivable balances are current and that all accounts it deems uncollectible are written off, subject to the approval of the Authority's board.

Auditee's Response

> *The Authority will be establishing formal written policies and procedures to ensure that its account receivable balances are current and that all accounts it deems uncollectible are written off, subject to the approval of the Authority's Board of Commissioners.*

d. The Authority's controls over laundry receipts were inadequate.

Our prior audit report disclosed that there were no written policies or procedures in place for the collection, deposit, and use of receipts from the Authority's coin-operated laundry machines. After reviewing the laundry-receipt bank account and finding that the average deposits fluctuated significantly, we recommended that the Authority establish formal written policies and procedures for the management of funds received from its laundry operations.

Our current audit revealed that although the Authority appeared to have implemented informal controls over this activity, it still had not established the formal written policies and procedures recommended in the prior audit. Through observation and interviews, we found that the Authority's CAO maintained the keys for the individual coin receptacles for each machine and two staff members collected the coins from each machine and deposited the coins in the bank. The fee accountant reconciles the bank account.

The absence of documented internal controls over cash receipts could result in the mishandling of deposits, including theft, fraud, and improper use.

Authoritative Guidance

In its Accounting Manual, DHCD states that the managers of each Authority are responsible for developing and implementing a system of internal controls. These controls should safeguard assets such as cash; promote efficiency; encourage compliance with appropriate policies, rules, and regulations; and ensure accuracy of accounting records. Cash is a vulnerable asset that requires a system of strong internal controls to prevent theft or misuse. Section 8 of the manual also states that it is important for each housing authority to observe certain "fundamental requirements," including "the use of forms, documents, and procedures which facilitate control and provide for proper approvals."

The National Association of State Comptrollers has issued an Internal Control Questionnaire, titled "Cash, Petty Cash, Change Funds, and Credit Cards," containing guidance on this matter, including the following:

> *Internal Controls over cash are necessary to prevent mishandling of funds and to safeguard against loss. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining responsibilities in the cash handling process. "Cash" includes coin, currency, checks, money orders and credit card transactions. Entities can use internal controls to protect against embezzlement, theft, fraud, and poor decision making.*

In addition, the Massachusetts Office of the State Comptroller (OSC) provides guidance in its Internal Control Guide for the implementation of internal controls for all state agencies. While the Authority is not required to follow OSC's guidance, it provides a guide for best practices. With regard to policies and procedures, the guide states, "It is important that an organization establish policies and procedures so that staff knows what is to be done and compliance can be properly evaluated."

Reasons for Inadequate Controls

While addressing many of the issues in the prior report, the Authority had not made it a priority to develop policies and procedures to ensure that the collection, deposit, and use of funds received from its laundry operations were properly documented and safeguarded against misuse.

Recommendation

The Authority should formally document, and obtain board approval of, policies and procedures for managing laundry receipts and then put controls in place to ensure that they are implemented.

Auditee's Response

The Authority will formally document and obtain Board approval of policies and procedures for managing laundry receipts and then put controls in place to ensure that they are implemented.

e. The Authority's controls over employee reimbursement forms were deficient.

During our prior audit, we found that contrary to DHCD guidance, the Authority had not developed sufficient internal controls over employee reimbursement. We recommended that the Authority develop written policies and procedures for employee reimbursement and update its employee reimbursement form, as necessary.

During our current audit, we found that the Authority had updated its employee reimbursement form to incorporate controls, including requiring appropriate supporting documentation stating the business purpose of the reimbursement request, the starting and ending points for mileage reimbursements, and the reimbursement amount, and bearing a supervisory approval signature. We found that the CAO approves employees' reimbursements and the board approves his. However, the Authority had not developed formal written policies and procedures for employee reimbursement that had been approved by its board. Formally recording policies and procedures in writing is essential for establishing what reimbursements are allowable, maintaining proper accountability over reimbursements, and ensuring that the policies and procedures are consistently followed, especially in the case of staff turnover. The absence of documented internal controls over employee reimbursement creates a higher-than-acceptable risk that errors in reimbursements to employees could occur.

Authoritative Guidance

Section 8 of the DHCD Accounting Manual states that "the management of each Local Housing Authority is responsible for developing and implementing a system of internal control." These controls should safeguard assets such as cash; promote efficiency; encourage compliance with appropriate policies, rules, and regulations; and ensure the accuracy of accounting records. The section also states that it is important for each housing authority to observe certain "fundamental requirements," including "the use of forms, documents, and procedures which facilitate control and provide for proper approvals."

In addition, as previously mentioned, OSC's Internal Control Guide states that organizations should establish policies and procedures to ensure and evaluate compliance with requirements.

Reasons for Lack of Written Policies and Procedures

The Authority had not made it a priority to develop policies and procedures regarding employee reimbursement. Authority officials stated that they had been working to address the issue and had implemented informal internal controls, but that those controls had not been formally documented.

Recommendation

The Authority should establish written policies and procedures for employee reimbursement.

Auditee's Response

The Authority will establish written policies and procedures for employee reimbursements.

f. The Authority did not issue Miscellaneous Income Form 1099-MISC for 2009.

Our prior audit report disclosed that the Authority did not issue Internal Revenue Service (IRS) Miscellaneous Income Form 1099-MISC to six vendors who were paid a total of $42,971 during calendar year 2009. We recommended that the Authority correct its IRS filings for calendar year 2009, issue Form 1099-MISC to the vendors, and ensure that all 1099-MISC forms were properly issued and filed with the IRS in a timely manner.

Our current audit revealed that although the Authority issued 1099-MISC forms to its vendors beginning in calendar year 2010, the Authority still had not issued these forms to its vendors for calendar year 2009. Not adhering to the IRS requirement could subject the Authority to penalties and interest.

Authoritative Guidance

For each contractor paid more than $600 during a calendar year, 26 United States Code 6041(a) requires entities to prepare a 1099-MISC form that details the name of the contractor, federal reporting number, and amount paid.[1] The entity must send copies of the form to the contractor and the IRS.

Reasons for Noncompliance

Since our prior audit, there has been a change in administration at the Authority, and Authority officials told us that they could not find the financial records necessary to file accurate IRS 1099-MISC forms for the contractors in question. It should be noted that the Authority has filed all 1099-MISC forms for all subsequent years through the end of our audit period.

Recommendations

1. The Authority should again review its records to determine whether it can obtain the necessary financial information to issue the required IRS 1099-MISC forms for the contractors in question for calendar year 2009.
2. The Authority should continue to issue the required IRS 1099-MISC forms each year.

Auditee's Response

There were not accurate financial records left from the prior administration to accurately report calendar year 2009 1099-MISC forms to the IRS. The Authority has filed all 1099-MISC forms for all subsequent years through the end of the audit period and will continue to issue the required 1099-MISC forms each year.

Auditor's Reply

We reiterate our recommendation that the Authority make every reasonable effort to obtain the necessary financial information to issue the required IRS 1099-MISC forms for the contractors in question for calendar year 2009.

3. Prior Audit Results Resolved

a. The Authority's maintenance plan has been effectively communicated and implemented.

During our prior audit, we found that the maintenance staff had not followed the Authority's preventive-maintenance plan because of staff shortages and a lack of familiarity with the plan. We recommended that the Authority familiarize its maintenance staff with the plan and that

1. According to the IRS's 2009 instructions, some payments, such as payments to corporations and tax-exempt organizations, do not have to be reported on this form, though they may be taxable to the recipient.

maintenance staff members acknowledge that they had read and understood it. During our current audit, we found that the Authority had instituted, and communicated to staff, its current Monthly Preventative Maintenance Plan and the related work-order system and on-call policy. Further, according to Authority management, there are now sufficient maintenance employees to carry out this plan.

b. The Authority's controls over board review and approval of expenditures have improved.

Our prior audit report disclosed that the Authority's internal controls over the oversight and approval of expenditures by its board needed to be strengthened, as it was paying sales tax on items for which it was exempt from that tax. We recommended that the Authority establish a formal process to review and approve expenditures monthly and make sure that it did not incur unnecessary Massachusetts sales taxes.

During our current audit, we found that the Authority had instituted a formal monthly expenditure review process that documented the board's review and approval of its expenditures. The monthly expense reports are signed by the board and the CAO, and vendor bills are available for review. Our audit tests did not indicate that the Authority paid any Massachusetts sales tax as had been noted in our prior report.

c. The Authority maintains a contract register for its modernization projects.

Our prior audit report disclosed that, contrary to DHCD requirements, the Authority did not maintain a contract register for its seven modernization projects. During our current audit, we found that the Authority maintained a contract register for all modernization and capital projects.

d. The Authority maintains an insurance register.

During our prior audit, we found that the Authority did not maintain an insurance register as required by DHCD. During our current audit, we found that the Authority maintained an insurance register for all insurance policies.

e. The Authority is correctly calculating rent redeterminations.

During our prior audit, we found that, although the Authority had formal policies and procedures in place for rent redeterminations, these policies were not followed and the Authority did not conduct rent redeterminations for occupants of its housing for families and elderly tenants in accordance with DHCD regulations.

During our current audit, we found that rent redeterminations were performed annually for all tenants as required by DHCD regulations. Our test of 22 out of 56 tenant files revealed that the files contained all required documentation and each rent redetermination was calculated correctly. We also found that the administrative staff performing rent redeterminations received training, as recommended in our prior audit report.

f. The Authority's tenant-selection process complies with regulations.

Our prior audit report disclosed that the Authority did not notify DHCD, or request or receive its approval, before transferring a tenant from a second-floor to a first-floor apartment. The transferred tenant, a relative of an Authority employee who was personally involved in the transfer process, appeared to have received preferential treatment over other tenants.

During our current audit, we reviewed 22 of 56 files of new tenants housed during our audit period and found that the tenant-selection process complied with DHCD regulations. The specific issue addressed in the prior audit was corrected, and the affected employee was retrained.

g. The Authority properly obtains certificates of insurance for contractors.

During our prior audit period, the Authority hired outside contractors for electrical work, plumbing work, yard maintenance, tile replacement, floor work, apartment cleaning, and carpet installation. However, contrary to DHCD requirements, the Authority did not obtain certificates of insurance from these outside contractors.

During our current audit, we tested 36 of 1,098 payments to contractors and 12 procurement projects and found that the Authority had obtained certificates of insurance from outside contractors before they performed any work.

h. The Authority complies with applicable procurement requirements.

During our prior audit period, the Authority did not solicit bids or price quotes for payroll, accounts-payable, and fee-accounting services or for the purchase of coin-operated washers and dryers as required by Chapter 30B of the Massachusetts General Laws and by DHCD guidelines.

During our current audit, we tested 12 procurement projects and found that the Authority complied with Chapter 30B requirements and DHCD guidelines regarding the procurement of goods and services, and we found no instances where bids were not solicited for the appropriate transactions.

i. The Authority's fee accountant is under contract and is performing the agreed-upon services.

Our prior audit report disclosed that the Authority did not have a current signed contract on file for its fee accountant, who is responsible for performing all accounting services connected with the Authority's state and federal housing developments. Moreover, the prior fee accountant did not perform all the contractually required job duties or all the duties that are typically performed by a fee accountant, including maintaining accounting books and records such as the general ledger, cash-receipt register, payroll records, and journal vouchers.

Our current audit revealed that a new fee accountant had been hired and that a contract detailing the services to be performed was on file. We reviewed the accounting work performed by the new fee accountant for the Authority and found that he had completed it in accordance with the contract. The fee accountant recorded accounting transactions, prepared reconciliations, prepared financial reports, reported to the board, and prepared budgets and financial reports for DHCD quarterly and annually.

j. The Authority has adequate security over tenant records.

Our prior audit report disclosed that the Authority did not keep all tenant applications in a locked file cabinet, an omission that could compromise private and confidential records, such as copies of Social Security cards, birth certificates, and medical information.

During our current audit, we found that confidential records such as tenants' files were now kept in an office area where access is limited to authorized personnel; the files are kept in locked, fireproof file cabinets when not in use. Further, this office is equipped with an intrusion alarm that is activated at the close of each business day.

k. Septic-system repairs are in progress.

During our prior audit, we found that the Authority had a deficient septic system, but in May 2009, the Authority entered into a consent order with the Massachusetts Department of Environmental Protection to upgrade a septic system serving two Authority properties to comply with all state regulations.

Our current audit revealed that the Authority was working with DHCD and the Town of Easton to build a facility to bring the wastewater system into compliance with current regulations and, as of the end of our audit fieldwork, was conducting meetings to accept bids for the wastewater project.

l. The Authority properly accounts for tenant pet deposits.

Our prior audit report disclosed that the Authority had not established a written pet-deposit policy to comply with DHCD's Pet Guidelines. Our review of the Authority's pet-deposit records showed several deficiencies, including not establishing a pet committee, posting pet rules and regulations, or properly accounting for and reconciling all pet deposits.

During our current audit, we found that the Authority had developed and issued a new pet policy, established a bank account for pet deposits, created a separate general-ledger account, and reconciled these accounts monthly to ensure that the accounts were accurate.

m. The Authority accurately records check numbers.

During our prior audit, we found that the check register created from the Authority's accounting software had check numbers that did not match the checks actually used to pay vendor invoices.

During our current audit, we tested 36 out of 1,098 checks and found that recorded check numbers were accurately entered in the accounting records and were in proper sequence. Further, invoices were filed by vendor name.

n. The Authority follows its purchase-order policy.

During our prior audit, we determined that the Authority did not follow its written purchase-order policy and procedures. Specifically, purchase orders were prepared and approved after the Authority had already made a purchase and received an invoice or statement.

During our current audit, we determined that the Authority was following its purchase-order policy and making purchases with purchase orders approved by the CAO and that no invoices were paid without a properly executed purchase order.

o. The Authority has improved its work-order process.

Our prior audit report disclosed that the Authority's written maintenance work-order policy and procedures were outdated and were not being followed, resulting in a backlog of more than 700 work orders.

Our current audit revealed the Authority had updated and strengthened its work-order process by requiring its housing coordinator to verify that all work orders had been completed before they were closed out. The Authority received funding to hire part-time maintenance workers and contractors to reduce the work-order backlog. Generally, the maintenance department's work orders were current.

p. The Authority's personnel folders are complete.

Our prior audit report disclosed that the Authority's employee files did not contain all required documentation, such as the Massachusetts Department of Revenue's Form M-4 (Massachusetts Employee's Withholding Exemption Certificate), performance evaluations, and notification of increases in pay. We recommended that the Authority review and update employee files to ensure that all appropriate employment and tax documentation was completed and retained.

Our current audit revealed that employee files were complete and included payroll forms, withdrawal authorizations, job descriptions, offer-of-employment letters, withholding information, federal I-9 forms, employee pay rates, timesheets, and leave information.

q. The Authority complies with its policies and procedures for accrual of vacation and sick leave.

During the prior audit, we noted that the Authority's vacation policy did not indicate when an employee was to accrue vacation time. Further, our review of payroll accruals revealed that employees received annual sick time on January 1, rather than accruing it monthly as described in the Authority's policy, and employees were allowed to carry over more vacation and sick time than the Authority's written policies permitted. In addition, there was no indication in board meeting minutes that the Authority's board had approved the carrying over of excess vacation and sick time.

During our current audit, we examined all accrued employee vacation and sick time balances and confirmed that all time used and accrued complied with the leave-accrual policies and that accruals were in agreement with employees' leave records. We also found that all employees carried over the appropriate balances of sick and vacation time to the following year in accordance with the Authority's policies.

r. The Authority complies with the State Sanitary Code.

Our prior audit report disclosed 59 instances of noncompliance with the State Sanitary Code. These issues included broken glass from windows and doors, loose doorknobs, water stains on ceilings, lifting and broken floor tiles, broken countertops, crumbling sidewalks and curbs, peeling and flaking paint on walls and ceilings, and mildew.

During our current audit, we re-inspected the units and common areas noted in our prior audit as noncompliant with the State Sanitary Code. All compliance issues related to the tenant units and common areas had been resolved.

s. The Authority has improved its controls over credit-card expenditures.

During our prior audit, we found that the Authority lacked sufficient internal controls over expenditures made with its credit card. Card transactions lacked supporting documentation and did not sufficiently document the business nature of each expense. The audit further disclosed that the Authority did not have a policy to regulate the use of credit cards. We recommended that the Authority establish written policies and procedures to ensure that all credit-card expenditures were accompanied by the proper documentation, made only for Authority-related purposes, and approved by the board of commissioners.

During our current audit, we found that on October 15, 2013, the Authority implemented written policies and procedures requiring all credit-card expenditures to be accompanied by appropriate documentation and made only for Authority-related purchases. We also performed testing and determined that all expenditures tested had adequate documentation.