

**The Commonwealth of Massachusetts**  
**AUDITOR OF THE COMMONWEALTH**  
ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI

AUDITOR

**NO. 2004-0675-8F**

**INDEPENDENT STATE AUDITOR'S REPORT  
ON THE ACTIVITIES OF THE  
HOLBROOK HOUSING AUTHORITY  
JULY 1, 2001 TO JUNE 30, 2002**

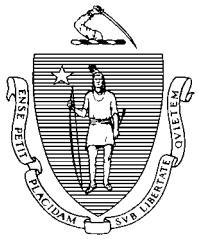
**OFFICIAL AUDIT  
REPORT  
NOVEMBER 1, 2004**

## TABLE OF CONTENTS/EXECUTIVE SUMMARY

Page

INDEPENDENT AUDITOR'S REPORT	1
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	3
REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO STATE-AIDED FINANCIAL ASSISTANCE PROGRAMS	5
AUDIT RESULTS	7
<u>Status of Prior Audit Results:</u> Our prior audit report of the Holbrook Housing Authority (HHA) (No. 2002-0675-8F3), which covered the period July 1, 2000 to June 30, 2001, expressed an adverse opinion on the Authority's financial statements because the Authority (1) failed to convert its basis of accounting to Generally Accepted Accounting Principles (GAAP), (2) had excessive Tenant Accounts Receivable for its State Aided Housing Program and (3) improperly handled the Family Self Sufficiency (FSS) Funds for the Federally Aided Section 8 Program. These problems continued and many others have been subsequently identified. (See Current Audit Results.)	7
<u>Current Audit Results:</u> Our current audit, which was initiated in September 2003 and covered the period July 1, 2001 to June 30, 2002, found that conditions had seriously deteriorated since the prior audit, which significantly impacted the financial stability and condition of the Authority. The full extent of the Authority's problems was not known until the former Executive Director retired and a new Executive Director was hired in January 2003. As a result, with the cooperation of the new Executive Director, we identified serious internal control, accounting, and management weaknesses that affected the current period and beyond. These weaknesses were confirmed by the new Executive Director and the management review performed by the Commonwealth's Department of Housing and Community Development (DHCD). This audit report identifies the conditions as of June 30, 2002 and thereafter, makes recommendations to address the problems and conditions that currently exist, and acknowledges the corrective action taken by the new administration.	
During the course of our audit, the OSA was presented with boxes to search through for checks, records, and other official documentation in order to conduct our audit, and we found, as did the new Executive Director, that there was no order or completeness to these records. It should be pointed out that the financial statements and the orderly maintenance and provision of supporting records are the responsibility of the Authority's management, and not that of the auditors. We spent an excessive and inordinate amount of time and effort to identify the conditions at the Authority in order to assist in its transition to a new Executive Director. The Current Audit Results are reported in the Schedule of Findings and Questioned Costs section of our report. In its response, the Executive Director noted that Authority is working to rectify the issues identified in the audit.	
FINANCIAL STATEMENTS	8
I. Balance Sheet, June 30, 2002	8

II. Statement of Revenues, Expenses, and Changes in Retained Earnings, Fiscal Year Ended June 30, 2002	9
III. Statement of Cash Flows, Fiscal Year Ended June 30, 2002	10
NOTES TO FINANCIAL STATEMENTS	12
SUPPLEMENTARY SCHEDULES	17
I. Schedule of Expenditures of Federal Awards, Fiscal Year Ended June 30, 2002	17
<u>State-Aided Programs in Management</u>	
II. Balance Sheets, June 30, 2002	18
III. Operating Statements, Fiscal Year Ended June 30, 2002	19
IV. Analysis of Surplus, Fiscal Year Ended June 30, 2002	20
<u>State-Aided Program in Modernization</u>	
V. Balance Sheet, June 30, 2002	21
VI. Statement of Modernization Costs, June 30, 2002	22
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS Fiscal Year Ended June 30, 2002	26
SUPPLEMENTARY INFORMATION	39
ORGANIZATION	40



# The Commonwealth of Massachusetts

## AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI  
AUDITOR

TEL. (617) 727-6200

2004-0675-8F

### INDEPENDENT AUDITOR'S REPORT

John Huxley, Chairman  
Holbrook Housing Authority  
1 Holbrook Court  
Holbrook, Massachusetts 02359

We have audited the Holbrook Housing Authority's Balance Sheet as of June 30, 2002, and the Statement of Revenues, Expenses, and Changes in Retained Earnings and Statement of Cash Flows for the fiscal year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During the course of our audit, we were presented with boxes to search through for source documentation (cancelled checks, invoices, federal and state approvals, and other records). We found, as

did the new Executive Director, that due to the previous Executive Director's negligence, there was no order or completeness, and as a result, much information could not be verified or reconstructed.

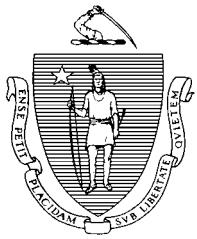
In our opinion, except for the effects (as detailed in Financial Statement Findings Nos. 1 to 5) of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Holbrook Housing Authority as of June 30, 2002, and the results of its operations and cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 29, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit

Our audit was performed for the purpose of forming an opinion on the financial statements of the Holbrook Housing Authority, taken as a whole. The accompanying Schedules are presented for purposes of additional analysis and are not a required part of the financial statements of the Holbrook Housing Authority. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly we express no opinion.

April 29, 2004

A. JOSEPH DeNUCCI  
Auditor of the Commonwealth



# The Commonwealth of Massachusetts

## AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI  
AUDITOR

TEL. (617) 727-6200

2004-0675-8F

-3-

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

John Huxley, Chairman  
Holbrook Housing Authority  
1 Holbrook Court  
Holbrook, Massachusetts 02359

We have audited the Holbrook Housing Authority's financial statements as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated April 29, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Holbrook Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. As discussed in Financial Statement Findings Nos. 1 to 5, there were five instances of noncompliance that are required to be reported under Government Auditing Standards.

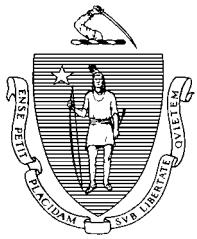
Internal Control over Financial Reporting

In planning and performing our audit, we considered the Holbrook Housing Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted five matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. (Financial Statement Findings Nos. 1 to 5).

This report is intended solely for the information and use of management, Holbrook Housing Authority's Board of Commissioners, the Commonwealth's Department of Housing and Community Development, the U.S. Department of Housing and Urban Development, other federal and state awarding agencies and pass-through entities, if any, and is not intended to be and should not be used by anyone other than those specified parties.

April 29, 2004

A. JOSEPH DeNUCCI  
Auditor of the Commonwealth



# The Commonwealth of Massachusetts

## AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI  
AUDITOR

TEL. (617) 727-6200

2004-0675-8F

-5-

### REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO STATE-AIDED FINANCIAL ASSISTANCE PROGRAMS

John Huxley, Chairman  
Holbrook Housing Authority  
1 Holbrook Court  
Holbrook, Massachusetts 02359

We have audited the Holbrook Housing Authority's financial statements and supplementary schedule as of and for the fiscal year ended June 30, 2002 and have issued our report thereon dated April 29, 2004.

We have also audited the Authority's compliance with the requirements governing types of services, eligibility, reporting, and special tests and provisions that are applicable to its state-aided financial assistance programs, which are identified in the Supplementary Information section of this report, for the fiscal year ended June 30, 2002. The management of the Holbrook Housing Authority is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Holbrook Housing Authority did not comply, in all material respects, with the requirements governing types of services, eligibility, reporting, and special tests and provisions that are applicable to its state-aided financial assistance programs for the fiscal year ended June 30, 2002.

Material instances of noncompliance are failures to follow requirements, or are violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed material instances of noncompliance as described in the Audit Results section of this report. (Supplementary Schedules Findings Nos. 1 to 9). We considered these material instances of noncompliance in forming our opinion on whether the Holbrook Housing Authority's fiscal year 2002 financial statements are presented fairly, in all material respects, in conformity with the basis of accounting prescribed by the Commonwealth's Department of Housing and Community Development (DHCD). We also noted certain immaterial instances of noncompliance that we have reported to the management of the Holbrook Housing Authority as described in the Audit Results section of this report.

This report is intended solely for the information and use of management, Holbrook Housing Authority's Board of Commissioners, the Commonwealth's Department of Housing and Community Development, the U.S. Department of Housing and Urban Development, other federal and state awarding agencies and pass-through entities, if any, and is not intended to be and should not be used by anyone other than those specified parties.

April 29, 2004

A. JOSEPH DeNUCCI  
Auditor of the Commonwealth

## AUDIT RESULTS

### Status of Prior Audit Results

Our prior audit report of the Holbrook Housing Authority (2002-0675-8F3), which covered the period July 1, 2000 to June 30, 2001, expressed an adverse opinion on the Authority's financial statements because the Authority (1) failed to convert its Section 8 Voucher Program basis of accounting to Generally Accepted Accounting Principles, (2) had excessive Tenant Accounts Receivable for its State Aided Housing Program, and (3) improperly handled the Family Self-Sufficiency Funds for the Federally Aided Section 8 Program. These problems continued and many others have been subsequently identified. (See Current Audit Results).

### Current Audit Results:

Our current audit, which covered the period July 1, 2001 to June 30, 2002, expressed a qualified opinion and disclosed five reportable conditions that are reported in the Schedule of Findings and Questioned Costs section of our report.

## FINANCIAL STATEMENTS

Statement No. IBalance Sheet

June 30, 2002

	Proprietary Funds Enterprise Fund
<u>Assets</u>	
<b>Current Assets:</b>	
Cash	\$ 68,810
Accounts Receivable	33,730
Investments	<u>3,170</u>
Total Current Assets	<u>\$ 105,710</u>
<b>Fixed Assets:</b>	
Furniture, Equipment, and Machinery:	
Administration	<u>\$ 5,168</u>
Total Assets	<u>\$ 110,878</u>
<u>Liabilities and Equity</u>	
<b>Liabilities:</b>	
Accounts Payable	\$ 127,527
Deferred Credits	<u>19,062</u>
Total Liabilities	<u>\$ 146,589</u>
<b>Equity:</b>	
Retained (Deficit)	<u>\$ (35,711)</u>
Total Liabilities and Equity	<u>\$ 110,878</u>

The accompanying notes are an integral part of these financial statements.

Statement No. IIStatement of Revenues, Expenses, and Changes in Retained Earnings

Fiscal Year Ended June 30, 2002

	Proprietary <u>Funds</u>
	Enterprise <u>Fund</u>
<b>Operating Revenues:</b>	
HUD PHA Grants	<u>\$ 725,148</u>
<b>Operating Expenses:</b>	
Administration	\$ 97,197
Audit Costs	1,500
Housing Assistance Payments	<u>650,944</u>
Total Operating Expenses	<u>\$ 749,641</u>
<b>Net Operating (Loss)</b>	<u>\$ (24,493)</u>
<b>Nonoperating Revenue:</b>	
Interest on Investments	<u>(1,908)</u>
Net (Loss)	<u>\$ (22,585)</u>
<b>Retained Earnings, June 30, 2001</b>	\$ 859
Net (Loss)	(22,585)
Prior Year Adjustments	<u>(13,985)</u>
<b>Retained (Deficit), June 30, 2002</b>	<u>\$ (35,711)</u>

The accompanying notes are an integral part of these financial statements.

Statement No. IIIStatement of Cash Flows

Fiscal Year Ended June 30, 2002

		Proprietary Funds
		Enterprise Fund
Cash Flows from Operating Activities:		
Payments to Vendors		\$ (38,351)
Payments to Employees		(46,687)
Payments of Benefits on Behalf of Employees		<u>(11,334)</u>
Net Cash (Used) by Operating Activities		\$ <u>(96,372)</u>
Cash Flows from Noncapital Financing Activities:		
Transfers from Other Programs		\$ 49,324
HUD Housing Assistance Payments Grant		725,148
Housing Assistance Payments to Landlords		<u>(653,844)</u>
Net Cash Provided by Noncapital Financing Activities		\$ <u>120,628</u>
Cash Flows from Investing Activities:		
Sale of Investments		\$ 189
Interest Received		<u>1,908</u>
Net Cash Provided by Investing Activities		\$ <u>2,097</u>
Net Increase in Cash and Cash Equivalents		\$ 26,353
Cash and Cash Equivalents, June 30, 2001		<u>42,457</u>
Cash and Cash Equivalents, June 30, 2002		\$ <u>68,810</u>

Statement No. III (Continued)Statement of Cash Flows

Fiscal Year Ended June 30, 2002

		Proprietary Funds
		Enterprise Fund
<u>Reconciliation of Net (Loss) to Net Cash (Used) by Operating Activities</u>		
Net (Loss)		\$ (22,585)
Non-Operating Activity:		
Housing Assistance Payments Grants		(725,148)
Interest Received		(1,908)
Housing Assistance Payments		650,944
Change in Deferred Charges		825
Change in Receivables/Payables		<u>1,500</u>
Net Cash (Used) by Operating Activities		<u>\$ (96,372)</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

1. Organization and Reporting Entitya. Organization

The Holbrook Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority operates and administers low-rent housing programs, which are funded/assisted by the Commonwealth's Department of Housing and Community Development (DHCD) and the U.S. Department of Housing and Urban Development (HUD). The Authority is governed by a five-member board, which elects a chairperson and employs an executive director to administer the affairs of the Authority. (See Organization section of this report.)

The Authority's operations and relationship with the Federal government are governed by contracts allowing the Authority to make housing assistance payments for eligible individuals and families. The Board of Commissioners authorizes these contracts with HUD pursuant to the latter agency's regulations and statutory authorizations.

The Reporting Entity/Component Units

For financial reporting purposes, the Authority has included all federal funds in their financial statements. The Authority has also considered all potential components units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Authority is such that exclusion would cause the Authority's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the primary government, Holbrook Housing Authority. The Authority has no component units to report in their financial statements.

2. Summary of Significant Accounting Policies

The accounting policies of the Authority conform to GAAP as applicable to proprietary funds. The following is a summary of the Authority's significant accounting policies.

a. Measurement Focus Basis of Accounting

The Authority presents its financial statements as Proprietary Funds/Enterprise Fund using the full accrual basis of accounting similar to the way a private sector business activity would.

As allowed by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Authority's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with or contradict a GASB pronouncement.

b. Cash Equivalents: The Authority's policy is to treat all highly liquid investments with original maturities of three months or less as cash equivalents.

c. Investments: Investments consisting principally of money markets and Massachusetts Municipal Depository Trust accounts are carried at current value.

d. Fixed Assets: Fixed assets, including land, buildings and improvements, furniture, equipment, and machinery, are accounted for at cost.

e. Revenues: The Authority receives funding from the United States Department of Housing and Urban Development and the Commonwealth of Massachusetts Department of Housing and Community Development in the form of operating subsidies.

f. Income Taxes: As a political subdivision of the Commonwealth of Massachusetts, the Authority is exempt from federal and state taxes.

g. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingencies at the date of the financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

h. Retained Earnings: Retained earnings are reserved by the grant program for future expenses or must be returned to the grantor and generally may not be used in any manner by the Authority except as specified under the respective grant contracts.

### 3. Cash and Investments

The Authority maintains separate cash and investment accounts for use by individual Federal and State programs. All deposits are collateralized, as described below, except for Massachusetts Municipal Depository Trust (MMDT) accounts, which are an investment pool for political subdivisions of the Commonwealth, and are exempt from collateral risk categorization in accordance with Government Accounting Standards Board Statement No. 3.

As of June 30, 2002, the carrying value of the Authority's cash and investment deposits was \$71,980 (per ledgers and financial statements) and the bank balances (which do not include reconciling items such as deposits in transit and outstanding checks) was \$71,980 (per bank statements). Of the total bank balance, \$71,980 was insured by the Federal Deposit Insurance Corporation. The June 30, 2002 carrying value of the Authority's deposits consisted of the following:

Checking accounts	\$68,810
Money Market account	3,170
Total	<u>\$71,980</u>

Cash and investments are classified in the following collateral risk categories:

1. Insured, registered, or collateralized with securities held by the Authority or by its agent in the Authority's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name).

The Authority's cash and investment as of June 30, 2002, by collateral risk category, are as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Category 1	\$68,810	\$3,170	\$71,980
Category 2	-	-	-
Category 3	-	-	-
Total	<u>\$68,810</u>	<u>\$3,170</u>	<u>\$71,980</u>

4. Fixed Assets: A summary of changes in fixed assets that occurred during the fiscal year ended June 30, 2002 follows:

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2002</u>
<u>Section 8 Voucher Program:</u>			
Equipment	\$ 5,168	= -	\$ 5,168

5. Pension Plan Obligations

Plan Description: All full time employees of the Authority participate in the Norfolk County Retirement System, which is a defined benefit, cost sharing, multiple-employer Public Employee Retirement System. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. The Norfolk County Retirement System provides pension benefits, deferred allowances, and death and disability benefits to plan members and beneficiaries. A member may retire at age 55 with 10 years of service or at any age with 20 years of service with the Authority or other entity covered by the Retirement System. Benefits vest after 10 years. The Norfolk County Retirement System issues a publicly available financial report in accordance with guidelines established by the Public Employee Retirement Administration Commission (PERAC). A copy of this report can be obtained by contacting the Norfolk County Retirement Board at 480 Neponset Street, Building 15, Canton, Massachusetts 02021 or by telephone at 781-821-0664.

Funding Policy: Active plan members' contributions range from 5% to 11% of compensation, depending on the date of employment. The Authority is required to pay into the System its share of the system-wide actuarially determined contribution as approved by PERAC, which is apportioned among employees based on active current payroll. The Authority's fiscal year 2002 total contributions were \$26,311, of which the Authority's share was \$16,548 and the employees' share was \$9,763. The Commonwealth of Massachusetts reimburses the System for a portion of benefit payments for cost-of-living increases granted before July 1, 1998. Cost-of-living adjustments granted after July 1, 1998 must be approved by the Norfolk County Retirement Board and are funded by the System. The Authority's

contributions to the Retirement System for the fiscal years ending June 30, 2002, 2001, and 2000 were \$26,311, \$28,782, and \$23,931, respectively, and were equal to the required contributions for each year.

6. Contingent Liabilities

Certain claims, suits, and complaints arising in the ordinary course of business have been filed and are pending against the Authority. In the opinion of the Authority's management, all such matters are adequately covered by insurance or, if not so covered, are without merit or are of such kind or involve such amounts as would not have a material adverse effect on the combined financial statements of the Authority.

7. Prior Year Adjustments

Section 8 Rental Voucher Program prior year adjustments consist of the following:

HUD Year-End Settlement	\$ (2,603)
HUD Administrative Fee Adjustment	(3,297)
Section 8 Certificate Program Close-Out	<u>(8,085)</u>
Total Prior Year Adjustments	<u><u>\$(13,985)</u></u>

## SUPPLEMENTARY SCHEDULES

Schedule No. ISchedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2002

<u>Department of Housing and Urban Development</u>	<u>Federal CFDA Number<sup>1</sup></u>	<u>Annual Contributions Contract</u>	<u>Expenditures</u>
Section 8 Rental Voucher Program	14.855	B-1440	<u>\$725,148</u>

<sup>1</sup>Refer to Catalog of Federal Domestic Assistance.

Note:

The Schedule of Expenditures of Federal Awards presents the activity of all federally assisted programs of the Authority. The Authority's reporting entity is defined in Note 1 to the Authority's financial statements. All expenditures of federal awards received directly from federal agencies are included in the schedule.

Schedule No. IIState-Aided Programs in ManagementBalance Sheets

June 30, 2002

	Family and Elderly	Mass. Rental Housing Voucher Program 400	Mass. Program
<u>Assets</u>			
Cash	\$ 17,274	\$ 2,811	
Accounts Receivable	191,503	2,450	
Advances	-	600	
Investments	7,078	-	
Deferred Charges	621	-	
Development Costs	2,464,000	-	
Less: Development Cost Liquidation	(60,000)	-	
Inventory of Furniture and Equipment	73,654	-	
Completed Modernization Costs	366,851	-	
Total Assets	<u>\$ 3,060,981</u>	<u>\$ 5,861</u>	
<u>Liabilities and Surplus</u>			
Accounts Payable	\$ 18,624	\$ 2,923	
Accrued Liabilities	5,378	-	
Deferred Credits	91	2,450	
Grants Issued	2,404,000	-	
Cumulative Modernization Contributions	366,851	-	
Surplus	266,037	488	
Total Liabilities and Surplus	<u>\$ 3,060,981</u>	<u>\$ 5,861</u>	

Schedule No. IIIState-Aided Programs in ManagementOperating Statements

Fiscal Year Ended June 30, 2002

	Family and Elderly	Mass. Rental Housing Voucher <u>Program 400</u>	<u>Program</u>
<b>Operating Receipts:</b>			
Shelter Rent	\$ 287,001		-
Interest on Investments	526	\$ 54	
Other Operating Receipts	904		-
Administrative Fee	-		<u>3,250</u>
Total Operating Receipts	<u>\$ 288,431</u>	<u>\$ 3,304</u>	
<b>Operating Expenditures:</b>			
Administrative	\$ 51,498	\$ 2,872	
Maintenance	60,869		-
General	36,292		726
Provision for Operating Reserve	57,051		-
Provision for Capital Reserve	9,400		-
DHCD-Directed Costs	15,387		-
Utilities	<u>112,955</u>		-
Total Operating Expenditures	<u>\$ 343,452</u>	<u>\$ 3,598</u>	
(Deficit) before Subsidy Earned	\$ (55,019)	\$ (294)	
Operating Subsidy Earned	<u>52,219</u>		-
(Deficit) before Nonroutine Expenditures	\$ (2,800)	\$ (294)	
Nonroutine Expenditures	<u>(3,805)</u>		198
Net Income/(Deficit)	<u>\$ 1,005</u>	<u>\$ (492)</u>	
<b><u>Year-End Settlement of Mass. Rental Voucher Program</u></b>			
Total Landlord Payments		\$ 73,408	
Total Partial Payments Received from DHCD for Fiscal Year		<u>73,452</u>	
Overpayment Due DHCD		<u>\$ 44</u>	

Schedule No. IVState-Aided Programs in ManagementAnalysis of Surplus

Fiscal Year Ended June 30, 2002

	<u>Family and Elderly Housing Program 400</u>	<u>Mass. Rental Voucher Program</u>
<u>Valuation of Fixed Assets</u>		
Balance June 30, 2001	\$ 72,880	-
Purchase of Equipment	<u>774</u>	<u>-</u>
Balance June 30, 2002	<u>\$ 73,654</u>	<u>-</u>
<u>Capital Reserve</u>		
Balance June 30, 2001	-	-
Provision for Capital Reserve	<u>\$ 9,400</u>	<u>-</u>
Balance June 30, 2002	<u>\$ 9,400</u>	<u>-</u>
<u>Operating Reserve</u>		
Balance June 30, 2001	\$ 124,927	\$ 980
Net Income/(Deficit)	1,005	(492)
Provision for Operating Reserve	<u>57,051</u>	<u>-</u>
Balance June 30, 2002	<u>\$ 182,983</u>	<u>\$ 488</u>
<u>Total Surplus</u>	<u>\$ 266,037</u>	<u>\$ 488</u>

Statement No. VState-Aided Program in ModernizationBalance Sheet

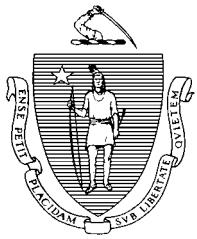
June 30, 2002

<u>Assets</u>		
Modernization Costs (Net):		
<u>Work Plan Number</u>		
1004		\$ 48,537
1005		225,209
1006		97,154
1007		<u>196,467</u>
Total Assets		\$ <u>567,367</u>
<u>Liabilities and Grants</u>		
Accounts Payable		\$ (4,257)
Grants Issued		<u>571,624</u>
Total Liabilities and Grants		\$ <u>567,367</u>

Statement No. VIState-Aided Program in ModernizationStatement of Modernization Costs

June 30, 2002

	Work Plan Number			
	<u>1004</u>	<u>1005</u>	<u>1006</u>	<u>1007</u>
Administration	\$ 2,000	\$ 6,037	\$ 3,852	\$ 3,270
Architectural and Engineering Fees	5,887	15,570	-	10,523
Construction Costs	<u>53,800</u>	<u>203,602</u>	<u>93,302</u>	<u>182,674</u>
Total Modernization Costs	\$ 61,687	\$ 225,209	\$ 97,154	\$ 196,467
Less:				
Other Funding	<u>13,150</u>	<u>-</u>	<u>-</u>	<u>-</u>
Modernization Costs (Net)	<u>\$ 48,537</u>	<u>\$ 225,209</u>	<u>\$ 97,154</u>	<u>\$ 196,467</u>



# The Commonwealth of Massachusetts

## AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI  
AUDITOR

TEL. (617) 727-6200

2004-0675-8F

-23-

### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

John Huxley, Chairman  
Holbrook Housing Authority  
1 Holbrook Court  
Holbrook, Massachusetts 02359

#### Compliance

We have audited the compliance of the Holbrook Housing Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement dated March 2002, that are applicable to its major federal program for the fiscal year ended June 30, 2002. The Holbrook Housing Authority's major federal program is identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Holbrook Housing Authority's management. Our responsibility is to express an opinion on the Holbrook Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in

Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Holbrook Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Holbrook Housing Authority's compliance with those requirements.

In our opinion the Holbrook Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2002.

#### Internal Control over Compliance

The management of the Holbrook Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of

laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Holbrook Housing Authority's Board of Commissioners, the Commonwealth's Department of Housing and Community Development, the U.S. Department of Housing and Urban Development, and other federal and state awarding agencies and pass-through entities, if any, and is not intended to be and should not be used by anyone other than those specified parties.

April 29, 2004

A. JOSEPH DeNUCCI  
Auditor of the Commonwealth

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS****Fiscal Year Ended June 30, 2002****1. SUMMARY OF AUDIT RESULTS**

- a. The auditor's report expresses a qualified opinion on the financial statements of the Holbrook Housing Authority.
- b. The audit disclosed certain reportable conditions and material weaknesses in internal control.
- c. The audit disclosed instances of noncompliance material to the financial statements.
- d. The auditor's report on compliance for its major program expresses a qualified opinion.
- e. The audit disclosed reportable conditions and material weaknesses in internal control over its major program.
- f. There were 5 audit findings that are required to be reported under Section 510(a) of OMB Circular A-133.
- g. The Authority administered the following major program:

Section 8 Rental Voucher	CFDA No. 14.855
--------------------------	-----------------

- h. The threshold used to distinguish Type A and Type B programs was \$300,000.
- i. The Authority was determined to be a high-risk auditee.

**2. FINANCIAL STATEMENT FINDINGS**

- a. There were 5 audit findings related to the financial statements reported in accordance with Government Auditing Standards:

Our current audit, which covered the period July 1, 2001 to June 30, 2002 and was initiated in September 2003, found that conditions had seriously deteriorated since the prior audit, which significantly impacted the financial stability and condition of the Authority. The full extent of the Authority's problems was not known until the former Executive Director retired and a new Executive Director was hired in January 2003. With the cooperation of the new Executive Director, the existence of serious internal control, accounting, and management weaknesses were identified and were confirmed by both the new Executive Director and a management review

performed by the Department of Housing and Community Development (DHCD). Accordingly, this audit report identifies conditions as of June 30, 2002 and thereafter, makes recommendations to address the problems and conditions that currently exist, and acknowledges the corrective actions taken by the new administration.

During the course of our audit, the OSA was often presented with boxes to search through for checks, records, and other official documentation in order to conduct our audit. We found, as did the new Executive Director, that there was no order or completeness.

It should be pointed out that the financial statements and the orderly maintenance and provision of supporting records are the responsibility of the Authority's management and not that of the auditors. We spent an excessive and inordinate amount of time and effort to identify the conditions at the Authority in order to assist in its transition to the new Executive Director's administration.

The reportable conditions outlined below require the rendering of a qualified opinion:

1. Basis of Accounting

Our prior audit report disclosed that the Authority had not converted its federal programs from the U.S. Department of Housing and Urban Development (HUD) basis of accounting to accounting principles generally accepted in the United States of America (GAAP), or submitted federal and state program financial information to HUD's Real Estate Assessment Center (REAC) as of June 30, 2001. Our current audit disclosed that as of June 30, 2002, the Authority still had not converted its basis of accounting to accounting principles generally accepted in the United States of America (GAAP), or electronically submitted the required financial information to REAC.

On September 1, 1998 (effective October 1, 1998), Subpart H, which established "Uniform Financial Reporting Standards" (UFRS) applicable to all public housing agencies, was added to 24 Code of Federal Regulations, Part 5. These standards require the Authority to electronically

submit annual federal program financial information to HUD and to prepare the financial information in accordance with GAAP.

The “HUD PHA GAAP Conversion Guide” states that:

“The Requirement that PHAs report their annual financial statement information to conform to GAAP applies to all PHAs that administer subsidized programs under the terms of an Annual Contributions Contract (ACC). PHAs are required to report all business activities . . .”

Also, the HUD PHA GAAP Conversion Guide incorporates National Council on Governmental Accounting Statement No. 1 “Governmental Accounting and Financial Reporting Principles”, which states that fixed assets must be depreciated and requires that an allowance for doubtful accounts receivable be established. GAAP also requires recognition of materials and supplies inventory and compensated absences liability. It is incumbent upon the Authority to comply with the UFRS with respect to its federal programs and, notwithstanding the fact that REAC has not enforced entity-wide reporting with respect to the Public Housing Authorities that have Section 8 Programs only, to comply with the HUD PHA GAAP Conversion Guide.

Recommendation: We recommend that the Authority convert its federal programs from the HUD basis of accounting to GAAP and electronically submit federal and state program financial information to REAC. The Authority should submit state program financial information to REAC by either converting from the DHCD basis of accounting to GAAP or utilizing the modified accrual approach agreed upon at the April 12, 2000 meeting held at HUD’s Boston office, which allows “the reporting of buildings without breakdown of land, furniture, buildings, etc. under GFAAG (General Fixed Assets Account Group).”

2. Improper Handling of Family Self-Sufficiency (FSS) Funds – Federally Aided Section 8 Program

Our current audit indicated continuing deficiencies regarding the FSS Program. Specifically, as communicated to the Authority by the U.S. Department of Housing and Urban Development (HUD), the Authority: a) did not apply for FSS funds and inappropriately paid South Shore

Housing (SSH) with state funds, and further owes SSH for services they provided during the term of the previous Executive Director; b) did not meet the program requirements for the minimum number of individuals or families in the program; and c) prepared financial reports and related explanations that contain inconsistencies. Our review indicated that the Authority did not maintain a separate bank account for the FSS Program or subsidiary accounts for each tenant in the program. Further, the cash balances were overstated and inaccurate because the FSS cash was commingled with the Section 8 Program cash. Also, the former Executive Director had not applied for FSS grant funds for the last two years and lost out on approximately \$60,000 in Federal Grants. However, without receiving any grant funds for the program, the Authority's financial statements somehow reflect the receipt of \$6,875 as grants (that were never received) and the charging of over \$6,100 in salaries to the program when no one was working on the program. In addition, after the Section 8 housing voucher program was transferred to another local Housing Authority (Dedham) to be administered, the Authority charged over \$58,000 in salaries and benefits to the program. Finally, the former Executive Director paid out over \$25,000 to two tenants without an approved FSS program, without any supporting documentation that these tenants fulfilled the FSS program requirements and were owed any money. As a result of inappropriately and unofficially operating this unapproved program on an ad hoc basis, the Authority misappropriated funds from other state accounts not intended for this use, and lost out on federal funding from HUD, who under these circumstances is not now obligated to fund the program. The new Executive Director has been working on this issue. In addition, although Dedham Housing Authority was managing the Authority's Section 8 Voucher program, the Authority continued to inappropriately charge salaries of \$46,687 and benefits of \$11,334 to this program that it was not administering. As a result, the Federal Section 8 Program owes the State programs approximately \$119,000.

### 3. Lapse of Workers' Compensation Insurance Coverage

The former Executive Director improperly allowed the workers' compensation insurance coverage to lapse and the Authority's employees were not covered by insurance from March 3, 2002 until May 1, 2003, when the new Executive Director obtained coverage.

### 4. Inadequate Internal Controls

In addition to the evident breakdown in internal administrative, accounting and management controls that resulted in the previous mentioned problems, the Authority demonstrated further control breakdowns outlined below. Accordingly, we could not place any reliance on internal controls.

a. Minutes of the Meetings - The Authority could not produce minutes for all meetings of the board. There were many months in which the board did not have a quorum. The minutes that were available for review were not very useful or informative, nor were they kept in a bound minutes book. There was no record of review and approval of budgets, expenditures, or financial statements. There were no approved management plans, policies and procedures, rent collection policy for delinquent rents since 1985, or annual reports since 2001.

b. Inventory of Furniture and Equipment – There was no record of changes to this account since 1985, thus bringing into question the balance sheet valuation of \$79,146 for this account.

c. Expenditures – Our review of expenditures, to the extent possible, indicated approximately \$26,225 of unallowable, inappropriate, and questionable expenditures, including the use of funds for tenant Christmas parties, gift lottery tickets, and funeral flower spiritual baskets. In addition, payments of approximately \$32,700 had no supporting invoices.

d. Lack of Time and Attendance Records – The failure to properly maintain time and attendance records and properly account for the earning and use of leave is an injustice to the other employees of the Authority, since, without an accurate accounting, the Authority is unable

to determine the amount of leave to which an employee is entitled. In addition, in the long run there is no substantiation or justification for any payment for unused sick or vacation time upon retirement. This was the case for the previous Executive Director, when DHCD, HUD, the auditors, and the Authority determined that there was no basis, documentation, or justification for any payment of this nature. Unfortunately, leave balance records were not maintained for the other current employee, and the new Executive Director started them anew as of January 1, 2003.

##### **5. Governance, Oversight, and Monitoring**

The problems outlined at the Authority demonstrate the need for the Board of Commissioners to exercise its fiduciary responsibilities to provide strong direction and clear policy in order to oversee and monitor the performance of the Executive Director and condition of the Authority. The Authority's financial condition is a result of its own doing and mismanagement. In this regard, DHCD issued budget guidelines for the fiscal year July 1, 2002 to June 30, 2003. Among other things, the guidelines indicated that if the Authority instituted the early retirement program, the Authority must absorb all of the associated costs. In spite of this admonition, the Authority authorized two early retirements, including that of the former Executive Director, and as a result must absorb the additional related costs. In fact, HUD characterized some of the conditions presented in this report as "examples of lack of administrative capacity and performance...also call into suspect the...oversight practices of the HHA." Other correspondence characterizes some of the problems as "sums lost due to negligence in managing." In DHCD's summary report of the management review, it indicated that the "systems for tracking and accountability were weak or non-existent." Management and the Board should comply with the laws, rules, and regulations of the state and federal funding agencies in order to turn the Authority around. Proper governance can help guide the Authority to a stable footing and preclude the reoccurrences of these conditions in the future. In this regard, the board should require periodic meetings with the Authority's fee accountant to ask questions and obtain explanations and insight into the fiscal

condition of the Authority. Further, DHCD should consider lifting the bar requiring full time hours for the Executive Director and consider hours and pay in proportion to the state share of the programs administered by the Authority. This will help to save state and Authority funds and reduce costs until or if the administration of the Section 8 program returns.

Auditee's Response:

On January 1, 2003 I began my tenure as Executive Director of Holbrook Housing Authority. Since that time, I have been working diligently with the Massachusetts Department of Housing & Community Development and the U.S. Department of Housing & Urban Development to rectify all of the issues that have been identified in this audit.

Auditor's Reply: We recommend that the Authority continue in its efforts to resolve the aforementioned issues.

**3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

a. There were two audit findings and questioned costs totaling \$89,100 relating to federal awards:

1. Basis of Accounting

See Financial Statement Finding No. 1.

2. Improper Handling of Family Self-Sufficiency Funds

See Financial Statement Finding No. 3.

**4. SUPPLEMENTARY SCHEDULES FINDINGS**

a. There were 9 audit findings related to state programs.

1. Excessive Tenant Accounts Receivable-State-Aided Program

The "recorded" Tenant Rents Receivable shows a serious neglect by the prior management to attend to and resolve this problem as it relates to the State Aided 705 Family Housing Program. There are only ten units in this program, and the following table of "recorded" tenant accounts

receivable due from 9 of the 10 tenants for unpaid and delinquent rents since June 30, 2002 demonstrates this mismanagement:

<u>Balance Due</u>	<u>Date</u>	<u>Number of Units in Arrears</u>
\$23,303	06/30/99	5
\$30,713	06/30/00	6
\$65,741	06/30/01	8
\$71,547	06/30/02	9
\$79,810	06/30/03	9
\$80,885	12/31/03	9

This dramatic increase demonstrates the serious neglect by management. We stress "recorded" because, since taking over, the new Executive Director discovered additional problems which indicate that these balances are unreliable and inaccurate. Previously, rent reviews and rent charge determinations were not computed accurately or recorded on a timely basis at the time of the determination. We also found that some tenant files for this program were void of leases, lease addendums, and rent review determinations and supporting documentation. The records also indicate that for some of these tenants, the monthly rent charge was recorded at the old, lower rate, or arbitrarily in the amount of the payments, thus grossly understating the balance receivable. Our tests indicated that the June 30, 2002 balance is understated by approximately \$21,102, but since the accounts are basically unauditable, the amount could be higher. This is tantamount to the inappropriate and unauthorized write-off of tenants rent by simply not recording the proper rents at the time of determination.

Even the new management's attempts to reconstruct the tenant accounts have been discontinued as futile, because of inadequate records among other things, and the Authority has, with the best numbers they could derive, instead simply started over. To further demonstrate this point, in March 2003, over \$2,500 in stale, outdated rent checks were found attributable to seven

tenants dating back to April 2002 that were never deposited. Immediate steps were taken to replace and deposit these rent checks. The fact that these checks were recorded but not deposited demonstrates a serious lack of internal control over rent collections, and questions the procedures of the then outside Fee Accountant.

As a result of these problems, the new Executive Director has taken corrective action and has entered into repayment agreements with some of the tenants who were in arrears. The other tenants have vacated their units and the new Executive Director is in the process of filling these units with responsible tenants who are paying or will pay their obligated rent. Therefore, the financial condition of the 705 Program should gradually improve with proper and diligent management, better oversight by the Board of Commissioners, continuing full occupancy, and the support and patience of DHCD. Unfortunately, this will take time and require the write-off of about \$72,500 in rents owed to the program by tenants who have moved out and have filed for bankruptcy. In spite of rising receivables from \$71,547 on June 30, 2002 to \$80,885 on December 31, 2003, the Authority had not established an Allowance for Bad Debts Account, until after a new Fee Accountant was hired when the account was set up in the amount of \$62,050. Rent collections (Revenue) have increased and should continue, with vigilant rent collections and the leasing of the four remaining vacant units in the combined programs.

## 2. Lack of Applicant Waiting Lists and Unit Vacancy Logs

In a related matter affecting the management and fiscal viability of the Authority, we found that the ledger of vacant units had not been maintained properly since May of 1999. As a result, without knowing how many units were vacant and for how long, the potential loss of rental income could not be calculated. In addition, the waiting list ledger of tenant applications was not properly maintained. The new Executive Director also found several current applications in desk drawers that were never time stamped or recorded in the ledger in chronological order. The employee responsible for these duties has since left the Authority, thus raising questions about the

integrity of the ledger. Steps have been taken to rectify both of these problems so that vacant units can be occupied as soon as possible with people from the new waiting list to minimize the loss of rental income.

### 3. Lapse of Workers' Compensation Insurance Coverage

See Financial Statement Finding No. 3.

### 4. Modernization Projects

The Authority had four open modernization projects on the books as of June 30, 2002. The following comparison shows the comparative accumulated costs through December 31, 2003 with the costs at completion for each project:

<u>Work Plan Number</u>	<u>Purpose</u>	<u>Date Work Completed</u>	<u>Costs at Completion</u>	<u>Cost at June 30, 2002</u>	<u>Costs at December 31, 2002</u>	<u>Costs at December 31, 2003</u>
1004	Boiler/Water Heater Replacement	1/00	\$45,542	\$48,537	\$48,603	\$58,787
1005	Bathroom Heaters and Fire Alarm Panel Replacements	3/00	\$205,382	\$225,209	\$227,333	\$228,695
1006	Roof Replacements	3/99	\$96,051	\$97,154	\$97,154	\$97,154
1007	Roof Deck and Sidewall Replacements	6/02	\$196,467	\$196,467	\$222,963	\$222,963

The above information indicates, and our audit work found, that the Authority continued to charge costs to these projects after the work was completed. These charges included the former Executive Director's salary, accounting fees, employee benefits and other miscellaneous charges. When the new Executive Director questioned the Fee Accountant about this, and his continuing accounting charges, he stopped billing for these projects. The new Executive Director subsequently changed Fee Accountants. These projects should have been officially closed in a timelier manner so that unnecessary charges would have been precluded. As it is, on 12/31/03, according to DHCD's Consolidated Capital Improvement Cost Report, the Authority had spent \$22,000 on these projects in excess of the state grants received.

In addition, the Authority did not maintain a separate bank account for its modernization programs and instead commingled these funds with the other programs funds. Also, as was generally the case regarding many of the supporting documents requested, the back up for journal vouchers or invoices paid were not available or could not be located. The new Executive Director is working with DHCD to have these projects officially closed out.

##### **5. Unrecorded and Unpaid Bills and Obligations**

The Authority has neglected to pay and, in some cases, recognize and record expenses totaling approximately \$90,000, such as water and sewer bills, payment in lieu of taxes (PILOT) to the town of Holbrook, audit fees, and bills for services received from SSH. This failure, as is the case with unrecorded tenant rents, serves to distort the Authority's financial condition. The Authority needs to budget for and record these liabilities, otherwise the State and Federal funding agencies are not aware of these obligations, and payment becomes jeopardized. The Authority cannot hide its obligations because it doesn't have funds on hand to pay. It is not fair to the town, which provides water and sewer, fire, and police protection services to the Authority, that it is on the bottom of the list to be paid or not listed at all. The PILOT that the town is charged is authorized by Section 15 of Charter 121B, the enabling statute. The amount of \$3,213.30 is a token amount compared to the standard tax for the ten units of family housing operated by the Authority. The Authority should recognize and pay what is reasonable for the services received from the town.

#### 6. State Operating Subsidies

We found that there were two journal entries in the General Ledger for which we were unable to find any supporting documentation, totaling \$50,500 for deferred DHCD Operating Subsidies. The deferred subsidies were for air conditioner costs (\$20,500) and exterior painting (\$30,000). These two amounts were ending balances as of 6-30-02. In the subsequent fiscal year, in July 2002, the entries were reversed and recorded as Fiscal Year Ending Adjustments. It appears that these entries were made to offset a deficit in the 4001 program, and then reversed in the first month of the new fiscal year. As a result, what was recorded, as a surplus was actually a deficit because of overstating the operating subsidies.

#### 7. Physical Condition of Property

During the course of the audit, we observed the condition of the buildings, grounds, and vacant units during repair and before occupancy. The maintenance employee does a commendable job maintaining the buildings and grounds and readying vacant units for new tenants. However, there is a need for repairs and expansion to the maintenance garage, the landscape could be beautified, and family-housing property could be improved to accommodate play areas for tenants' young children.

##### Auditee's Response:

On January 1, 2003 I began my tenure as Executive Director of Holbrook Housing Authority. Since that time, I have been working diligently with the Massachusetts Department of Housing & Community Development and the U.S. Department of Housing & Urban Development to rectify all of the issues that have been identified in this audit.

Auditor's Reply: We recommend that the Authority continue in its efforts to resolve the aforementioned issues.

#### 8. Inadequate Internal Controls

See Financial Statement Finding No. 4.

9. Governance, Oversight, and Monitoring

See Financial Statement Finding No. 5.

## SUPPLEMENTARY INFORMATION

### 1. Audit Review

At the conclusion of our audit, we reviewed the results of our audit with Nancy Gordon, Executive Director of the Holbrook Housing Authority.

### 2. State-Aided Housing Programs

The Authority currently operates the following state-aided housing programs:

<u>Program</u>	<u>Type</u>	<u>Number of Units</u>
400	Family and Elderly Housing	84
MRVP	Mass. Rental Voucher Program	<u>11</u>
		<u>95</u>

### 3. Federally Aided Housing Program

The Authority currently administers the following federally aided housing program:

<u>Program</u>	<u>Type</u>	<u>Number of Units</u>
Section 8	Rental Voucher	<u>82</u>

## ORGANIZATION

June 30, 2002

The Holbrook Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended, which is known as the Housing and Urban Renewal Law. Joseph Jackman is the Executive Director.\*

The Authority's administrative office is located at One Holbrook Court, Holbrook, Massachusetts 02343. As of June 30, 2002, the Authority was organized as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Huxley 22 Roseen Road Holbrook	Chairman	April 2004
William Marble 8 Spring Lane Holbrook	Vice Chairman	April 2003
William Powers 25 Valley Road Holbrook	Treasurer	April 2005
Robert Cole 2C Holbrook Court Holbrook	Secretary	April 2006
Catherine Ennis ** 6C Holbrook Court Holbrook	Member (State Appointee)	July 2004

\*The Executive Director, Joseph Jackman, took an early retirement effective December 31, 2002. Nancy Gordon was appointed the new Executive Director effective January 1, 2003.

\*\*Catherine Ennis, the State Appointee, resigned from the board effective November 2002. As of April 27, 2004, there has been no new State Appointee placed on the board.