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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
HOPKINTON HOUSING AUTHORITY
JANUARY 1, 2005 TO FEBRUARY 28, 2007**

**OFFICIAL AUDIT
REPORT
AUGUST 22, 2007**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Hopkinton Housing Authority for the period January 1, 2005 to February 28, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. Based upon our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 26-month period ended February 28, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS**3**

NONCOMPLIANCE WITH DHCD BUDGET GUIDELINES**3**

During our audit of the Hopkinton Housing Authority, we noted that the Authority was operating without an approved budget for fiscal years 2006 and 2007. The Department of Housing and Community Development did not approve the Authority's budget in either year because it included a salary for the Executive Director that exceeded allowable budgetary limits. In its response, the Authority's Chairperson informed us that she has requested a meeting with DHCD to discuss and resolve this matter.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Hopkinton Housing Authority for the period January 1, 2005 to February 28, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD's procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.

- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.

Based on our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 26-month period ended February 28, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

NONCOMPLIANCE WITH DHCD BUDGET GUIDELINES

During our audit of the Hopkinton Housing Authority we noted that the Authority was operating without an approved budget for fiscal years 2006 and 2007. The Department of Housing and Community Development (DHCD) did not approve the Authority's budget in either year because it included a salary for the Executive Director that exceeded the allowable budgetary limits.

DHCD provides each Authority with budget guidelines that require authorities to submit the budget to their state and federal funding agencies. The budget guidelines define the Authority's budget as the document through which its financial resources are managed. The budget establishes the maximum amount which will be spent on any particular line item, on any particular program, and within a particular period of time, usually one year. Specifically, the budget guidelines allow an Authority significant latitude in formulating their budgets, however, restrictions apply to increases in salaries. During fiscal year 2006, although DHCD's budget guidelines did not allow for a salary increase for the Executive Director, the Authority submitted their budget requesting a 21% increase in the Executive Director's salary. In fiscal year 2005, the Executive Director's budgeted salary was \$30,786, and an annual salary of \$37,246 was requested in the 2006 budget.

DHCD rejected the Authority's 2006 budget request because of the unallowable increase in the Executive Director's salary. The Authority resubmitted their original budget to DHCD, stating the Authority's board had the legal authority for the pay raise, referencing Chapter 121B, Section 7, of the Massachusetts General Laws. In their letter rejecting the Authority's budget for a second time, DHCD stated, "Although the Section of Chapter 121B that you rely on provides that housing authorities set employee compensation, Section 11 of that Chapter gives DHCD the power to create regulations that govern all operations of LHAs, including compensation." The letter further states, "The Supreme Judicial Court has determined that DHCD has the power under this statute to supervise any and all decisions open to housing authorities. *See Commissioner of Dept. of Community Affairs v. Medford Housing Authority*, 363 Mass. 826 (1973). The DHCD General Administration of Local Housing Authorities regulation, 760 CMR 4.05, adopted pursuant to G.L. c. 121B, Section 11, specifically provides for DHCD oversight of salaries and wages through the budget process."

Without an approved budget, the Authority is not in compliance with DHCD's policies and procedures. The budget guidelines further state, "Until such time that the LHA has received an

approved budget, it is authorized to spend at a level no greater than the prior fiscal year's approved level, less any one-time exemptions. No new expenditures for additional staffing or salary increases may be made until the new budget has been formally approved by DHCD." Since the Authority's fiscal year 2005 budget was the last budget that was approved, all salaries should have remained at the 2005 levels, which for the Executive Director was \$30,786. Despite DHCD's rejection of the 2006 budget, the Authority paid its Executive Director \$37,157, resulting in an overpayment of \$6,371. In addition to this unauthorized payment, the Authority granted a salary increase to the maintenance supervisor due to a job reclassification. Although the maintenance supervisor is entitled to this allowable salary increase, the Authority is not authorized to pay this increase without an approved budget. The maintenance supervisor's budgeted salary for fiscal year 2005 was \$49,327; however, we found he was paid \$61,981 during fiscal year 2006.

The Authority's fiscal year 2007 budget request again included a salary request of \$37,246 for the Executive Director. DHCD's fiscal year 2007 budget guidelines allowed the Authority to increase salary levels by 7% over the allowable salary levels established in fiscal year 2006 budget guidelines. Since the Executive Director's fiscal year 2006 allowable salary was \$30,786, this salary could have been raised to \$32,941, based on a 7% increase, not the requested \$37,246. DHCD rejected the fiscal year 2007 budget request for two reasons. First, DHCD will not approve and process the current year's budget if the prior fiscal year's budget has not been approved, and second, the Executive Director's salary exceeded the allowable budgetary limits. We found that the Authority is paying the Executive Director commensurate with the \$37,246 salary request, which will result in an additional overpayment for fiscal year 2007. Additionally, the Authority continues to pay the maintenance supervisor a salary that exceeds the last approved budget, as he is being paid in accordance with the Authority's proposed but unapproved budgeted salary of \$63,916 for fiscal year 2007.

Recommendation

The Authority should 1) resubmit their fiscal year 2006 and 2007 budgets in compliance with DHCD budget guidelines 2) seek guidance from DHCD on overpayments resulting from the 2006 and 2007 salary paid to the Executive Director, and 3) pay all current salaries based on the last approved budget.

Auditee's Response

The Authority's Board Chairperson stated that she requested a meeting with a DHCD official in a letter dated July 11, 2007 to discuss and resolve the matter, but she has not received a response.