



# The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
LOWELL HOUSING AUTHORITY  
JULY 1, 2006 TO JUNE 30, 2008**

**OFFICIAL AUDIT  
REPORT  
JULY 23, 2009**

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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 Lowell Housing Authority for the period July 1, 2006 to June 30, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Based on our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 24-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our review of the Authority's internal controls over inventory determined that improvements were needed to ensure compliance with established procedures. Specifically, the Authority did not have a complete listing of its property and equipment, did not reconcile its inventory records to the Authority's financial statements, and did not conduct an annual inventory. We recommend that the Authority ensure that its inventory control procedures are in full compliance with the Department of Housing and Community Development requirements by establishing a comprehensive inventory listing, tagging all furniture and equipment, conducting a complete inventory annually, and reconciling the inventory list to its financial records. In its response, the Authority indicated that at the close of the fiscal year it would conduct an inventory of property and equipment and perform a reconciliation to the general ledger.

## INTRODUCTION

### *Audit Scope, Objectives, and Methodology*

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 Lowell Housing Authority for the period July 1, 2006 to June 30, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and that rental charges by landlords were consistent with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.

- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD 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 24-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### IMPROVEMENTS NEEDED IN INVENTORY CONTROLS

Our review of the Lowell Housing Authority's internal controls over inventory determined that improvements were needed to ensure compliance with established procedures. Specifically, the Authority did not have a complete listing of its property and equipment, did not reconcile its inventory records to the Authority's financial statements, and did not conduct an annual inventory. The Department of Housing and Community Development (DHCD) Accounting Manual for State-Aided Housing Programs, Section 15 requires the following inventory procedures:

- Furniture and equipment record cards or a computerized list should be established and maintained.
- All equipment should be tagged with an assigned asset number.
- A physical inventory of all furniture and non-expendable equipment inventory must be taken each year.

The Authority provided us with an inventory list and stated they had taken a partial equipment inventory during the last fiscal year. However, without an updated list that contains an accurate inventory value, the Authority's financial statements may not reflect the correct values for its property and equipment. It appears that the former accountant consistently carried the inventory list and valuation for property and equipment without updating the list. Improvements in the Authority's inventory control procedures are necessary to adequately assure the Authority that assets are safeguarded against possible loss, theft, or misuse. Subsequent to our fieldwork, the Authority began the process of taking an inventory of its property and equipment.

### ***Recommendation***

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

***Auditee's Response***

*The Lowell Housing Authority does maintain a detailed inventory listing that includes the tagging of all inventory items. In the past, however, an inventory count and reconciliation to the general ledger was not performed annually. In September 2008, a full inventory count was performed and the results were reconciled to the general ledger during the year-end closing. This process was performed again in March 2009 to coordinate with an inventory tracking software conversion. The Lowell Housing Authority has fully converted to a new accounting and inventory system effective October 1, 2008. We believe there are adequate tools and features in this updated software to maintain accurate inventory listings. Beginning at the close of fiscal year September 30, 2008, the Lowell Housing Authority will perform, at a minimum, inventory counts and reconciliation to the general ledger annually. As management sees fit, an inventory count may be mandated more frequently.*