



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

Making government work better

Official Audit Report – Issued December 13, 2017

Lynnfield Housing Authority

For the period April 1, 2015 through March 31, 2017





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

Making government work better

December 13, 2017

Mr. Joseph Markey, Chair
Lynnfield Housing Authority
600 Ross Drive
Lynnfield, MA 01940

Dear Mr. Markey:

I am pleased to provide this performance audit of the Lynnfield Housing Authority. This report details the audit objectives, scope, methodology, finding, and recommendation for the audit period, April 1, 2015 through March 31, 2017. My audit staff discussed the contents of this report with management of the Authority, whose comments are reflected in this report.

I would also like to express my appreciation to the Lynnfield Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Herbert Dike, Executive Director

TABLE OF CONTENTS

| | |
|--|----------|
| EXECUTIVE SUMMARY | 1 |
| OVERVIEW OF AUDITED ENTITY | 2 |
| AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY | 3 |
| DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE..... | 7 |
| 1. The Lynnfield Housing Authority lacks important board-approved policies and procedures. | 7 |

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Lynnfield Housing Authority for the period April 1, 2015 through March 31, 2017. In this audit, we reviewed the Authority's financial activities and its activities related to the selection of tenants, the procurement of goods and services, and the inspection of housing units.

Below is a summary of our finding and recommendation, with links to each page listed.

| | |
|--|--|
| Finding 1 Page 7 | The Authority lacks important board-approved policies and procedures. |
| Recommendation Page 8 | The Authority should create board-approved policies and procedures for procurement, credit card use, and tenant rent collection. |

Post-Audit Action

The Authority's executive director stated that the Authority was drafting written policies and procedures for procurement, credit card use, and rent collection.

OVERVIEW OF AUDITED ENTITY

The Lynnfield Housing Authority was established in 1977 and is authorized by, and operates under, Chapter 121B of the Massachusetts General Laws, as amended. Its administrative offices are located at 600 Ross Drive in Lynnfield. The Authority is governed by a five-member board of commissioners, of which four are elected; the fifth member is appointed by the Department of Housing and Community Development in conjunction with the Governor. The Authority operates 64 one-bedroom units, including 4 units for handicapped tenants, for its program for qualified low-income elderly and handicapped people at the same location as its administrative offices. It also operates 8 units at 680 and 682 Main Street in Lynnfield under a state program that houses tenants on behalf of the Department of Mental Health. The Authority's revenue and expenses for fiscal years 2016 and 2017 are as follows:

| Program | | 2016 | 2017 |
|------------------------------------|-------------------|----------------------|----------------------|
| Elderly/Handicapped | Revenue | \$344,389.69 | \$313,121.94 |
| | Expenses | 347,133.47 | 369,980.11 |
| | Net Income | <u>\$ (2,743.78)</u> | <u>\$(56,858.17)</u> |
| Department of Mental Health | Revenue | \$ 27,138.59 | \$ 27,381.79 |
| | Expenses | 48,312.15 | 48,725.48 |
| | Net Income | <u>\$(21,173.56)</u> | <u>\$(21,343.69)</u> |

During our audit period, in June 2016, the board appointed a new part-time executive director to manage its day-to-day operations. The executive director is supported by a part-time administrative assistant, a full-time maintenance director, and a part-time maintenance worker.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Lynnfield Housing Authority for the period April 1, 2015 through March 31, 2017.

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. Are the Authority's financial operations performed in accordance with all applicable laws, regulations, and other authoritative guidance regarding the following? | |
| a. reasonableness of administrative expenditures in accordance with Sections 8 and 16 of the Department of Housing and Community Development (DHCD) Accounting Manual | No; see Finding <u>1</u> |
| b. rent collections and other accounts receivable in accordance with DHCD's Accounting Manual and other applicable authoritative requirements | No; see Finding <u>1</u> |
| c. reasonableness of credit card expenditures in accordance with DHCD's Accounting Manual and other applicable authoritative requirements | No; see Finding <u>1</u> |
| d. contract compliance with DHCD regulations and other applicable authoritative requirements for the contracting agreement with the executive director | Yes |
| 2. Does the Authority determine tenant eligibility in compliance with Sections 5.0, 6.04, and 6.05 of Title 760 of the Code of Massachusetts Regulations (CMR)? | Yes |
| 3. Does the Authority procure goods and services in accordance with Chapter 30B of the General Laws and Sections 8 and 16 of the DHCD Accounting Manual? | No; see Finding <u>1</u> |
| 4. Are the Authority's procedures for site inspections adequate to ensure that housing units meet the safety and sanitation requirements of 105 CMR 410 and the DHCD Property Maintenance Guide? | Yes |

To achieve our objectives, we gained an understanding of the internal control environment at the Authority and evaluated the design of internal controls. We tested the operating effectiveness of controls in the following areas: administrative expenses, rent calculations, procurement of goods and services, and ability to provide safe and sanitary housing.

We assessed the reliability of the Authority's source documents by performing verification testing. We performed these tests by reviewing check disbursements for one month before and one month after our audit period to determine whether there were any missing disbursements. We also reviewed the tenant rent roll (a monthly printed report showing rent due and the total amount received from each tenant) to determine whether any tenants had outstanding rents due the Authority but were not listed on its quarterly Report of Tenants Accounts Receivable worksheet.¹ We compared rent rolls to quarterly and year-end DHCD operating statements.

Regarding the use of credit cards, we reviewed credit card statements for one month before and one month after our audit period to verify that beginning and ending credit card balances were accurate, and we confirmed that there were no missing monthly credit card statements. We also reviewed the Authority's bank statements to determine whether there were any other credit or debit cards the Authority might have been using.

To ensure that our population of tenants and units was accurate, we used the tenant rent roll and visual inspections to determine the total number of units and tenants at the Authority. To verify that there were no vendor contracts that were not disclosed to us during our audit testing, we reviewed all board meeting minutes for the audit period, as well as the Authority's financial statements.

Based on the results of these audit procedures, we determined that the information obtained for our audit period was sufficiently reliable for the purposes of our audit work.

In addition, we performed the following procedures:

- We judgmentally selected a nonstatistical sample of 35 disbursements (totaling \$6,961) out of a population of 852 disbursements (totaling \$149,732) from our audit period to determine whether these administrative expenditures were reasonable and adequately supported by source documents.

1. Each quarter, the Authority calculates tenant accounts receivable and then enters the receivable amount on DHCD Financial Form 051-4, the Report of Tenants Accounts Receivable worksheet.

-
- We determined whether the Authority complied with DHCD's guidelines for accounts receivable by reviewing all tenants' accounts receivable as of March 30 for fiscal year-end 2016 and 2017 and any other accounts receivable due the Authority, and we verified the balances on the Authority's financial statements.
 - We reconciled the rent roll amounts at the end of our audit period to the Authority's cash-receipt slips, journals, and bank statements. We sought to determine whether the amounts were accurately listed in the appropriate general ledger accounts and were reflected in the fourth-quarter operating statement's Report of Tenants Accounts Receivable worksheet. In addition, we reviewed the general ledger accounts for the two months after our audit period to determine whether any accounts receivable were ultimately collected. We reviewed fiscal year 2016 and 2017 year-end write-offs for board approval.
 - We randomly selected a nonstatistical sample of 5 monthly credit card statements out of a population of 24 statements during our audit period to determine whether credit card expenditures were related to the Authority's operations and were reasonable, adequately supported by source documentation, and disbursed in accordance with applicable requirements. We achieved this by reviewing each invoice, receipt, check disbursement, and monthly statement to determine whether the expenditures were for Authority-related use and whether the amounts were reasonable. We determined whether receipt amounts matched the monthly statement totals and whether the written check amounts matched the statement amounts. We then determined whether the disbursed amounts were accurately represented in the appropriate general-ledger accounts. We also verified that all credit card purchases were made by authorized users.
 - We determined whether the Authority followed DHCD regulations for the contracting of the executive director. Specifically, we performed a salary calculation to determine whether the executive director's wage was above DHCD's maximum allowance. We then sought to determine whether the contractual length of employment was at or below the maximum of one year for newly hired executive directors and whether the contracted work hours were at or below the minimum number of hours required by DHCD. We verified that the contracted wage was less than or equal to DHCD-approved operating budgets and administrative salary financial account line items. Finally, we determined whether DHCD and the Authority's board of directors approved the final contract.
 - To determine whether all rent calculations were performed annually in accordance with DHCD regulations, we randomly selected a nonstatistical sample of 20 tenant rent calculations out of a population of 64. We tested each calculation for accuracy and verified that all deductions used to calculate the monthly rents were applicable. We then verified that the rent amounts reconciled to the tenant rent roll for the period in which they were calculated and were ultimately reflected in the Authority's appropriate financial accounts.
 - We selected all nine new tenants who were housed during our audit period to verify that they were selected based on eligibility in accordance with DHCD regulations. We reviewed each new tenant's file and confirmed that each application was date-stamped, matched the master file

ledger and master waiting list ledger,² and was given a control number; that incomes were verified; and that each applicant received the appropriate preference and priority classification.

- We obtained and reviewed all five contracts for goods and services procured by the Authority during our audit period and verified that each contract was in agreement with DHCD guidelines. Specifically, we sought to determine whether the bidding and awarding process was conducted in a manner that resulted in all contracts being awarded to the lowest responsible bidder.
- To determine whether the Authority provided safe and sanitary housing, we randomly selected a nonstatistical sample of 20 units out of a population of 64 and performed visual site inspections. Our examination also included a review of five out of nine maintenance work orders that were created as a result of the Authority's annual unit inspections; we determined whether the maintenance staff completed the work orders.

Since we used a nonstatistical sampling approach for our audit testing purposes, we could not project the results of our tests to the entire population.

2. These ledgers are permanent handwritten logs that detail applicants' names and application dates, the type/s of housing they applied for, a unique control number, and their preference or priority status based on factors such as homelessness and prior military service.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Lynnfield Housing Authority lacks important board-approved policies and procedures.

The Authority has not established any formal written policies and procedures regarding the procurement of goods and services, the use of credit cards, and the collection of tenant rents. Without such policies and procedures, there is inadequate assurance that these activities are consistently conducted in accordance with the directives of the Department of Housing and Community Development (DHCD), that they comply with all applicable authoritative guidance, and that proper accountability has been established for the staff's proper execution of these transactions. This creates a higher-than-acceptable risk of loss or misuse of the Authority's funds.

Authoritative Guidance

Section 16 of DHCD's Accounting Manual states, "It is necessary that all LHAs [local housing authorities] have a formal stated policy to control the purchases and contracts for equipment, materials, supplies and services," which would also include purchases made with credit cards. In addition, DHCD's Training Manual for Housing Authority Board Members states,

One of the primary responsibilities of the LHA board is to set and revise policies to guide the business of the housing authority and to ensure its goals are met. It is important that these policies are compliant with those set forth by the Commonwealth of Massachusetts, DHCD, and [the US Department of Housing and Urban Development] in cases where the LHA has federally subsidized programs and/or assets. Policies that the board oversees include, but are not limited to . . .

- *Procurement Policy . . .*
- *Rent Collection Policy.*

And Section 8 of DHCD's Accounting Manual states,

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

- *Safeguard the assets of the organization.*

Reasons for Noncompliance

According to the Authority's executive director, developing policies for the procurement of goods and services, the use of credit cards, and the collection of tenant rents was not a priority for the prior management.

Recommendation

The Authority should create board-approved policies and procedures for procurement, credit card use, and tenant rent collection.

Auditee's Response

The Board takes note of the Auditor's findings regarding written policies and agrees that these policies need to be drafted, updated and properly formalized by the Board. To this end the Board has formed a three-person subcommittee for this specific purpose. This subcommittee of the Board was formed prior to the receipt of the draft report based upon the recommendation of the new Executive Director but the Audit has certainly clarified the need for this review. It is the intent of the Board for this subcommittee [to] draft the policies recommended by the Auditor as well as to review all the existing policies of the Housing Authority as well as to explore areas that may need additional policies put in place. Thereafter the sub-committee will conduct periodic review of all Housing Authority Policies and Procedures to ensure that they are appropriately up to date and that all areas necessary are covered by an effective policy in the future. . . .

Regarding the lack of a credit card policy the Board agrees that a written policy is appropriate for proper controls and as such has placed the task of drafting the policy before the sub-committee. In the meantime, the Board would note that the Authority has only one credit card that is specifically limited to one supplier, as opposed to a general use credit card. This substantially limits the exposure the Authority may face. . . .

Lastly regarding rent collection . . . the Board appreciates the recommendations made by the State Auditor's Office and a more formalized written policy shall be drafted that fully outlines the rent collection steps the Authority has and will continue to use going forward.