



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

Making government work better

Official Audit Report – Issued April 28, 2015

Marshfield Housing Authority

For the period July 1, 2012 through June 30, 2014





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

Making government work better

April 28, 2015

Ms. Jean McDonald, Chair
Marshfield Housing Authority
12 Tea Rock Gardens
Marshfield, MA 02050

Dear Chairwoman McDonald:

I am pleased to provide this performance audit of the Marshfield Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2014. 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 Marshfield Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue horizontal line.

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	3
DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE.....	6
1. The Authority did not adequately document \$2,046 of credit-card expenses.	6

EXECUTIVE SUMMARY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Marshfield Housing Authority for the period July 1, 2012 through June 30, 2014.

The purpose of the audit was to review and analyze certain areas of the Authority's operations to determine whether it had established adequate internal controls in these areas and was operating in compliance with applicable laws, rules, regulations, and financial reporting and data requirements established by the Department of Housing and Community Development. In addition, we determined whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority.

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

Finding 1 Page 6	The Authority made credit-card payments totaling \$2,046 without supporting documentation.
Recommendation Page 7	The Authority, with the approval of its board of commissioners, should implement a formal written policy requiring that sufficient documentation be submitted for all credit-card expenses before payment.

OVERVIEW OF AUDITED ENTITY

The Marshfield Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority's administrative offices are located at 12 Tea Rock Gardens, Marshfield, Massachusetts. The Authority manages 113 units for low-income tenants, 97 units for elderly tenants, and 16 units for families. The Authority also administers 15 vouchers under the Massachusetts Rental Voucher Program.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Marshfield Housing Authority for the period July 1, 2012 through June 30, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Objective	Conclusion
1. Did the Authority have adequate controls over its financial operations, including reasonableness of administrative expenses such as executive compensation and benefits, credit-card purchases, rent collection, collectability of accounts receivable, cash controls, cost allocation, and administration and oversight of modernization and development fund expenditures?	No; see Finding <u>1</u>
2. Did the Authority have adequate controls over eligibility determinations, redeterminations, and tenant selection?	Yes
3. Did the Authority have adequate controls over procurement of goods and services and inventory controls over supplies and equipment?	Yes
4. Did the Authority have adequate controls over site inspections?	Yes
5. Did the Authority have adequate controls over contracting and leasing procedures?	Yes
6. Did the Authority comply with the Department of Housing and Community Development's (DHCD's) financial reporting and data collection requirements?	Yes
7. Were there any Authority-related associations, corporations, or other private entities that were involved in financial and/or management activities related to the Authority?	No

To accomplish our audit objectives, we gained an understanding of, and tested, the relevant internal controls for financial operations, tenant selection and occupancy, vacancies, site inspections, financial reporting, data collection, annual rent determinations, property maintenance, administrative expenses, cost allocation, property and equipment, and contract procurement, as well as modernization and development.

Further, we conducted audit testing in the following areas:

- We reviewed the Authority's policies and procedures for the administration of employee salaries and fringe benefits, verifying compliance with established requirements through examination of a sample of 58 out of 618 payroll transactions in our audit period.
- We reviewed 5 out of 31 new tenants' eligibility verifications to determine whether the tenants were eligible for housing in accordance with DHCD regulations.
- We examined the vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- We tested 22 out of 126 annual rent determinations to verify that rents were calculated properly and in accordance with DHCD guidelines.
- We tested tenant accounts receivable procedures and practices to ensure that rent collections were timely and that uncollectible tenant accounts receivable were written off in accordance with established policies.
- We reviewed site-inspection procedures and records to verify compliance with DHCD inspection requirements, and we determined whether selected housing units were in safe and sanitary condition.
- We reviewed 49 out of 1,159 general administrative expenditures made during our audit period for appropriateness, proper cost allocation, and compliance with established policy.
- We tested a total of 369 credit-card transactions, totaling \$34,516, to determine whether all charges were proper and had the required documentation before payment.
- We reviewed cash management and investment policies and practices to verify that the Authority prepared timely bank reconciliations, that it maximized its interest income, and that its deposits were fully insured.
- We tested DHCD grants and Authority payments related to modernization and development.
- We tested procedures for property and equipment and determined the adequacy of the Authority's controls to protect, and account for, its assets in accordance with DHCD guidelines.
- We examined contract-procurement records to verify compliance with all applicable laws and DHCD requirements for awarding contracts.

-
- We reviewed the Authority's DHCD-approved operating budget for fiscal years 2013 and 2014 and compared it to actual expenditures. We also reviewed line-item and total amounts to ensure that they were within budgetary limits.
 - We reviewed the adequacy of procedures in effect to collect data and ensure that required reports were complete, accurate, and submitted to DHCD in a timely manner.
 - We reviewed the Authority's management plan to determine whether it was up to date and reflected all current applicable legal, regulatory, and other requirements.
 - We reviewed the Authority's transactions and determined whether the Authority had conducted any transactions with related associations, corporations, or other private entities.

On October 21, 2014, the Office of the Inspector General (OIG) issued a report to the chair of the Authority's board of commissioners that detailed the results of a review that OIG had conducted because of allegations it had received alleging misconduct by the Authority's former maintenance supervisor. Our audit did not specifically address those allegations but rather focused on the Authority's systems of internal control and its activities over the areas outlined in our objectives.

We obtained revenue, grant-award, and expenditure information generated from information systems maintained by the Commonwealth and by the Authority. We compared this information with source documents and conducted information-security tests to determine the reliability of data. We determined that the data were sufficiently reliable for the purposes of this report. Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Authority did not adequately document \$2,046 of credit-card expenses.

During our audit period, the Authority made credit-card purchases for a total of \$2,046 without maintaining documentation to substantiate that they were reasonable and business related. According to Authority officials, the agency's bookkeeper had presented these expenses to the board of commissioners for payment and explained them, but the related documentation had been lost. Without documentation to support credit-card expenses paid by the Authority, there is a higher-than-acceptable risk that these expenses may not be for business-related purposes.

Authoritative Guidance

The Department of Housing and Community Development (DHCD), in its Accounting Manual, states that management at each Authority is responsible for developing and implementing a system of internal controls. These controls should safeguard assets; promote efficiency; encourage compliance with appropriate policies, rules, and regulations; and ensure accuracy of accounting records. This manual, and prudent business practices, suggest that at the time of purchase or payment, transactions such as credit-card expenditures should have proper supporting documentation. For instance, the Office of the State Comptroller, in its Commonwealth Procurement Card Program Policy for state agencies (issued October 29, 2008), requires an itemized receipt for each transaction made with a procurement card; the receipt must be legible and should show the vendor name, the date, and the price of the items. The documentation must be retained as an audit trail, and departments "should not honor any payments unless properly documented invoices (statements) are provided by the Cardholder." Although housing authorities are not required to follow the Commonwealth's credit-card policies, these policies represent procedures that can be considered best practices.

Reasons for Payment of Undocumented Credit Card Purchases

The Authority did not establish a written policy requiring proper documentation to be submitted for all credit-card purchases before payment.

Recommendation

The Authority, with the approval of its board of commissioners, should implement a formal written policy requiring that sufficient documentation be submitted for all credit-card expenses before payment.

Auditee's Response

We have taken corrective action and established a formal credit card policy which has been submitted to the Department of Housing and Community Development.