



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2009-0709-3A

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
MATTAPOISETT HOUSING AUTHORITY
APRIL 1, 2007 TO MARCH 31, 2009**

**OFFICIAL AUDIT
REPORT
JANUARY 6, 2011**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Mattapoissett Housing Authority for the period April 1, 2007 to March 31, 2009. 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 found that internal accounting and administrative controls at the Authority had significantly deteriorated since our prior audit. The extent of the Authority's problems was also detailed in a Department of Housing and Community Development (DHCD) Special Scope Review Report dated January 15, 2009. DHCD's review identified several major concerns regarding the overall management of the Authority.

Based on our review, we have concluded that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in inappropriate expenditures, uneconomical practices, and the mismanagement of its housing programs during the 24-month period ended March 31, 2009.

AUDIT RESULTS

4

1. INADEQUATE CONTROLS OVER PAYROLL

4

Our audit identified that the Authority needed to strengthen its internal controls over payroll. Specifically, we found issues with (a) incomplete and unauthorized employee timesheets; (b) untimely posting of vacation and sick time accruals; (c) unauthorized, undocumented, and questionable salary and overtime payments; and (d) questionable working hours for the Executive Director. In addition, our review disclosed that the Authority's management plan needs to be updated and that the Executive Director's contract had not been updated since 1992. Consequently, the Authority cannot ensure that its payroll costs represent reasonable, allowable, and allocable expenses.

a. Incomplete and Unauthorized Employee Timesheets

4

Our review revealed that improvements are needed regarding the completion, authorization, and documentation of employee timesheets for the Authority's two employees. We noted that the timesheets were incomplete and did not have a supervisory signature. Further, the maintenance employee's timesheets lacked information on tasks worked in a given day.

The Authority is required by DHCD to maintain formal and standardized time and attendance records for each employee. Standard payroll practices used by the local housing authorities require the preparation, submission, and approval of employee timesheets each week. Reporting time worked during a workweek is essential for ensuring an accurate accounting of payroll.

In its response, the Authority indicated that the Director is now signing the maintenance man's timesheets and revised timesheet procedures will be implemented. However, the

response further indicated that the Executive Director's timesheets are still not signed and approved by a member of the Board of Directors.

b. Untimely Posting of Vacation and Sick Time Accruals

5

Section 15 of the DHCD Accounting Manual requires formal attendance reports for the preparation of payroll to maintain adequate control over annual leave, sick leave, overtime, holiday work, and paid leave with respect to each employee.

A DHCD report dated January 15, 2009 disclosed that vacation and sick time accruals had not been updated in a timely manner. Specifically, the report stated that as of October 15, 2008, the date of the site visit, accrual time was posted up to the month of January 2008. In its response, the Authority indicated that vacation and sick time records are now being updated monthly.

c. Unauthorized, Undocumented, and Questionable Salary and Overtime Payments

6

Our review disclosed that the Authority's maintenance employee was preparing and submitting monthly attendance records without the authorization or oversight of the Authority to indicate approval of overtime charged. Our review of the maintenance employee's timesheets during our audit period revealed that overtime had not been pre-approved prior to or approved subsequent to its incurrence.

In its special scope report dated January 15, 2009, DHCD disclosed that the Authority disbursed payments totaling \$101,675 that included \$19,346 in additional salary payments to the Executive Director and \$62,199 in overtime payments to the maintenance employee; however, only \$20,130 of the \$101,675 was authorized by DHCD. The report also noted that, when requested, the Authority did not or could not provide the documentation justifying these additional disbursements and, contrary to Chapter 2 of DHCD's Modernization Manual, the additional payment to the Executive Director was used in calculating her pension benefits.

The DHCD report further noted that the maintenance employee's timesheet for the Monday of the pay period ended January 25, 2008 indicated that he had recorded four hours of vacation time and eight hours of holiday time (Martin Luther King day), in addition to reporting nine hours as worked for that day. Consequently, the maintenance employee was inappropriately paid for 12 hours at the overtime rate.

During our audit period, we found that 295.5 vacation and holiday hours were paid at the overtime rate for 28 pay periods, contrary to the Massachusetts Minimum Fair Wage Law and Regulations. As a result, the maintenance employee was additionally inappropriately compensated for \$2,853.34 (173.5 hours x \$9.40 + 122 hours x \$10.02) in overtime payments.

In its response, the Authority indicated it did not concur with our assessment that overtime compensation is allowable only on hours actually worked in excess of 40 hours. Furthermore, the Authority's response did not include any intent to implement overtime controls regarding future overtime payments.

d. Inconsistencies in Executive Director's Reported Working Hours **9**

The Authority Personnel Policy states that the regular workweek for part-time Executive Directors managing 54 units of elderly housing and 10 houses for family housing shall be a minimum of 18 hours. 75% of the total hours (13.5 hours) may be worked between the hours of 8:00 a.m. and 6:00 p.m. Monday through Friday. The remaining 25% (4.5 hours) may be worked evenings or weekends for the purpose of appointments and/or the completion of work-related assignments. Furthermore, the Authority Management Plan states that the office hours and days that the Authority is to be open to the general public are Tuesdays and Thursdays of each week between 7:30 a.m. and 2:30 p.m. Contrary to these established policies, the Executive Director's monthly timesheets revealed that hours recorded were not consistent with the office hours and days that the Authority is open to the general public. During our field work, we observed that the Executive Director was not on-site during the assigned days/hours, stating that she was working from home on official housing authority duties. Consequently, the Authority cannot adequately ensure that the Executive Director's timesheets accurately reflect her hours worked, the maintenance employee's work efforts are properly supervised, the needs of the Authority's tenants are being addressed, and applicants for low-income housing have access to needed information. In its response, the Authority indicated that Authority policy is now consistent with the posted hours.

2. IMPROVEMENT NEEDED REGARDING VACANCY TURNAROUND TIME AND VACANCY REPORTING **11**

Our review of the Authority's vacant unit turnaround time disclosed that the Authority had excessive delays in preparing vacated apartments for occupancy and may have lost the opportunity to earn approximately \$33,884 in potential rental income because it did not prepare and fill units on a timely basis. Specifically, it took the Authority an average of 152 days to prepare and fill the vacant units, well beyond the recommended 21 days as defined by the DHCD guidelines for maintenance. By not complying with DHCD's 21-day unit turnaround requirement and not maintaining accurate waiting lists, the Authority has adversely affected its overall financial condition and delayed state-subsidized housing for its elderly and family applicants.

3. OPERATING RESERVE SIGNIFICANTLY BELOW THE MINIMUM RECOMMENDED LEVEL **13**

Our review disclosed that the Authority's operating reserve was significantly below the minimum level recommended by DHCD. This condition resulted from the Board of Director's approval of questionable salary and overtime payments (see Audit Result No. 1) and lack of adequate oversight of Authority operations, a breach of the fiduciary duty owed the Authority. As a result, the Authority may not have the financial resources necessary to fund emergency situations or maintain the current level of services provided.

In its response, the Authority indicated that it operates on a daily basis in maintenance mode, unless an emergency arises.

4. MANAGEMENT PLAN NEEDS TO BE UPDATED**15**

Our audit revealed that the Authority's Management Plan needed updating. We noted that the plan was created in 1987 and last revised in 1994. Although the plan had the necessary components, such as organization, personnel policies, job descriptions, and DHCD regulations, the Authority has not updated these areas since the plan's inception. If any updates have been made to this plan since 1994, we noted no dates or initials of the person(s) performing the updates in the plan. Documentation of updates is important in order to reflect changes in the Authority's policies and procedures as well as any changes in the Authority's scope of operations. An updated and complete Management Plan is the basis for establishing and maintaining the systems necessary for administration of public housing, as well as implementing a system of internal control and ensuring compliance with DHCD's internal control requirements. In its response, the Authority indicated that the Management Plan will be updated with the Board's approval.

5. GOVERNANCE, OVERSIGHT, AND MONITORING NEED IMPROVEMENT**16**

The problems disclosed in this report resulted in part from a breakdown of the system of controls and checks and balances (i.e. governance) that are supposed to be exercised by the Board of Directors in fulfilling its fiduciary responsibilities to set policy, give direction, and monitor and oversee the activities of the Authority. These responsibilities ensure that the Authority's fiscal affairs and operations are conducted in compliance with applicable laws, rules, and regulations. Generally accepted government auditing standards require officials and employees who manage public programs to render an account of their activities, so that the public can be assured that government funds are handled properly and in accordance with applicable laws, rules, and regulations. In its response, the Authority indicated that the Board is given copies of all Authority correspondence and is made aware of expenditures through the signing of checks and reviewing of monthly financial reports.

INTRODUCTION

Background

The Mattapoisett Housing Authority manages 64 units in two state-aided housing programs. The Authority's staff consists of an Executive Director (part-time) and one full-time maintenance employee. Our audit, covering the period April 1, 2007 to March 31, 2009, found that internal accounting and administrative controls at the Authority had significantly deteriorated since our prior audit. The extent of the Authority's problems was detailed in a Department of Housing and Community Development (DHCD) Special Scope Review Report dated January 15, 2009. DHCD's review identified several major concerns regarding the overall management of the Authority. Significant DHCD findings regarding fiscal, administrative, and maintenance controls include:

- Instances of incomplete and erroneous timesheets, unauthorized overtime and salary payments, untimely updating of vacation and sick time accruals, and incomplete employee personnel files, contrary to the Authority's personnel policy.
- The financial and operational records, including payables, vacancy reports, and work orders, were not timely maintained.
- The Authority did not have a preventive maintenance plan that included the utilization of a work-order system.
- The Authority's waiting list was not updated and the on-line quarterly vacancy reports were not submitted as required.
- The personnel policy has not been approved by DHCD and the Authority has not updated the Executive Director's contract since 1992.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain activities of the Mattapoisett Housing Authority for the period April 1, 2007 to March 31, 2009. 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 evaluate the Authority's 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 audit tests and procedures that we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with 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 uncollectible tenant accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and ensure 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.
- 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 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 whether the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to assess the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.

- Modernization awards to verify that contracts were awarded properly and funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- DHCD's Special Scope Review dated January 15, 2009.

Based on our review, we have concluded that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in inappropriate expenditures, uneconomical practices, and the mismanagement of its housing programs during the 24-month period ended March 31, 2009.

AUDIT RESULTS

1. INADEQUATE CONTROLS OVER PAYROLL

Our audit identified that the Mattapoisett Housing Authority needed to strengthen its internal controls over payroll. Specifically, we found issues with (a) incomplete and unauthorized employee timesheets; (b) untimely posting of vacation and sick time accruals; (c) unauthorized, undocumented, and questionable salary and overtime payments; and (d) questionable working hours for the Executive Director. In addition, our review disclosed that the Authority's management plan needs to be updated and that the Executive Director's contract had not been updated since 1992. Consequently, the Authority cannot ensure that its payroll costs, which totaled \$189,123, including overtime amounting to \$45,988 during the audit period, represent reasonable, allowable, and allocable expenses.

a. Incomplete and Unauthorized Employee Timesheets

Our review revealed that improvements are needed regarding the completion, authorization, and documentation of employee timesheets for the Authority's two employees, consisting of the Executive Director and the maintenance employee. Specifically, we noted that:

- Timesheets were prepared and submitted monthly rather than weekly, and they did not provide a summarization of hours for each day and for each pay period.
- The Executive Director's timesheets did not contain a supervisory signature and date of completion. Eleven monthly timesheets, prepared by the Executive Director, did not have her signature and date of completion.
- The maintenance employee's timesheets did not indicate specific tasks actually worked on for a given day, were not signed by the Executive Director, and did not have a date of completion. Two monthly timesheets were not signed and dated by the employee (August 2008, February 2008).

The Authority is required by DHCD to maintain formal and standardized time and attendance records for each employee. Standard payroll practices used by local housing authorities require the preparation, submission, and approval of employee timesheets each week. Reporting time worked during a workweek is essential for ensuring an accurate payroll. Furthermore, Authority management should verify the accuracy of all employee timesheets, including the Executive Director, and the primary indication of this approval is a

signature by a supervisor. A supervisor's signature on a timesheet further represents that the employee's reported work hours are correct.

Auditee's Response

In response to this issue, the Executive Director stated, in part:

The Authority's current timesheets have been used since prior to the Director being hired in 1991. It's a sheet that contains 31 rows which represent each day of the month. It was appropriate since the maintenance person gets paid twice monthly and the director gets paid monthly. These timesheets have never been signed by a supervisor.

The Director is signing the Maintenance man's timesheets. The Director's monthly timesheet is not being approved since the Commissioners, not being on-site, cannot verify the hours worked. A daily descriptive work log is presently being kept by the Maintenance man. A revised timesheet will be implemented.

Auditor's Reply

Authority management should review and verify the accuracy of all employee timesheets, including the Executive Director, and the primary indication of this approval is a signature by a supervisor or board member.

b. Untimely Posting of Vacation and Sick Time Accruals

Section 15 of the DHCD Accounting Manual requires that:

Formal attendance reports will be necessary to provide information for the preparation of payroll and to maintain adequate control of annual leave, sick leave, overtime, holiday work and paid leave with respect to each employee . . . Attendance and leave reports must be kept on all employees. These reports are to be kept on an updated basis as pay periods close.

DHCD's Special Scope Review report dated January 15, 2009 disclosed that vacation and sick time accruals had not been updated in a timely manner. Specifically, the report stated that as of October 15, 2008, the date of the site visit, accrual time was posted up to the month of January 2008. DHCD recommended that "on the first of each month accrued vacation and sick time should be booked and with each pay period appropriate deductions for use of vacation and sick time should be made." The DHCD review also disclosed that contrary to DHCD's rules and regulations, the approved contract of employment between the Authority and the Executive Director, and the Authority's stated policy of a maximum of four weeks, the Executive Director accrued 22 weeks of vacation time.

Our review found that the Authority has started updating vacation and sick time accruals records.

Auditee's Response

In response to these issues, the Executive Director stated, in part:

Employee's vacation and sick time was not posted in a timely manner. Only when time allowed it or the employee was asking for vacation or sick time hours available, would the Director post from previous timesheets.

Vacation and sick time records are updated monthly.

Auditor's Reply

Since the corrective measures taken by the Authority occurred after the completion of our audit fieldwork, we cannot express an opinion on their adequacy, and we will review any and all corrective actions taken during our next scheduled audit.

c. Unauthorized, Undocumented, and Questionable Salary and Overtime Payments

During our review, we noted weaknesses in the payroll documentation and approval processes that needed to be addressed. Our audit revealed that the Authority's maintenance employee was preparing and submitting attendance records without the authorization or oversight of the Authority to indicate approval of overtime charged.

The Authority's policies do not provide for or require any pre-approval and documentation of overtime. Our review of the maintenance man's timesheets during our audit period revealed that the overtime had not been pre-approved either prior or subsequent to its incurrence. In addition, the maintenance employee's timesheets did not provide specific information on daily assigned tasks. In its special scope report dated January 15, 2009, DHCD noted instances of unauthorized salary and overtime payments to the Executive Director and the maintenance employee and disclosed that the Authority disbursed payments totaling \$101,675 that included \$19,346 in additional salary to the Executive Director and \$62,199 in overtime payments to the maintenance employee; however, only \$20,130 of the \$101,675 was authorized by DHCD to cover the administration of its modernization program. Consequently, the additional salary payments totaling \$19,346 to the Executive Director and the \$62,199 overtime payments were disbursed by the Authority in an amount

and manner unauthorized by DHCD. Furthermore, the report stated that the Authority did not or could not provide the documentation justifying these additional disbursements when requested and that the additional payment to the Executive Director was used in calculating her pension benefits, contrary to Chapter 2 of DHCD's Modernization Manual, which states, in part:

EOCD awards administrative compensation when a work plan is established to support modernization and redevelopment efforts. Administrative grants may not be used for pension benefits.

The DHCD report further noted that the maintenance employee was incorrectly overcompensated for vacation time and time worked for the pay period ended January 25, 2008, as illustrated below:

<u>Day</u>	<u>In</u>	<u>Out</u>	<u>In</u>	<u>Out</u>	<u>Sick</u>	<u>Vacation</u>	<u>Other</u>	<u>Total</u>
Saturday	8:00	11:00						3
Sunday	8:00	11:00						3
Monday	6:00	12:00	12:30	3:30			9+ (8 Holiday)	17
Tuesday	6:00	12:00	12:30	3:30				9
Wednesday	6:00	12:00	12:30	3:30				9
Thursday	6:00	12:00	12:30	3:30				9
Friday	6:00	10:00				4		<u>8</u>
								<u>58</u>

The maintenance employee was compensated for 18 hours of overtime, 12 of which were inappropriately paid, amounting to a \$112.80 overpayment to the maintenance employee (12 hrs at \$9.40 overtime hourly rate).

During our audit period, we found that 295.5 vacation and holiday hours were included in the maintenance employee's time sheets for 28 pay periods, and computed at the overtime rate. As a result, the maintenance employee was incorrectly compensated for \$2,853.34 (173.5 hrs x \$9.40 + 122 hrs. x \$10.02) in overtime payments.

Massachusetts Minimum Fair Wage Law and Regulations provide that when an employee works 40 hours and then receives additional hours of holiday and/or vacation pay, the employee is not entitled to overtime compensation for these hours. Overtime compensation is based only on hours actually worked in excess of 40 hours.

The Authority disbursed overtime payments to the maintenance employee amounting to \$45,988, consisting of 1,590.5 hours during the period of April 1, 2007 to March 31, 2009. [980 hours at \$28.20 + 610.5 hours at \$30.06].

Auditee's Response

In response to these issues, the Executive Director stated, in part:

All maintenance overtime, from February 2007 through 2009, was due to the mold remediation project, mandated by DHCD to be done by housing maintenance. The Mattapoisett Board of Health was heavily involved.

These were exceptional times but [we were instructed by] DHCD to have this work done by the staff which is only one maintenance person.

Since only the authorized Commissioners sign checks, the Board was well aware of overtime. DHCD was always informed of the hours spent on remediation as well as the Housing Management Rep since quarterly financial reports are sent online and reviewed by our Rep.

Vacation time began accumulating after an assistant retired February 2005 and no one [was rehired]. With time, the monies from the assistant's salary was used to fulfill other housing authority needs and it was handled in a revised budget. In time, the accountant advised us to leave that position unfilled. There was so much work to be done and now we were fortunate to be given numerous work plans during the years to follow. That required more work to be done and no time to take vacation time off. I had to become the tenant coordinator for the Work Plan #1010 since 2 tenants quit this position and someone was needed to be here daily to unlock apt. doors and remain with the workers. During Work Plan #1010, the DHCD representative would come to Mattapoisett only on Fridays to hold the contractor's meeting with the Authority and inspect the work. Therefore, I also had to come in on my own time. The office could not be closed 2 days during the week so therefore I have been unable to take a vacation. Having work plans going at the same time, resident problems, working with an attorney, appointments, numerous DHCD inspections and visits, all this makes it impossible to take time off. Occasionally I come in late or ½ day off, just to use up some hours. I have no intention of losing them. I did not ask for this situation. The Board is aware and so is DHCD. I have been more than fair with all these hours and I also show up for meetings that are not scheduled on my working days. DHCD should also honor the word "fair". If employees had taken sick hours during the same week the employee had worked additional hours . . . for example: worked Mon. – Thurs. 8 hrs each day and had 8 hours sick time on Fri. and worked 13 additional hours between Sat. & Sun. Those hours would have been overtime hours but since he had 8 hours sick time on Fri., 8 of those additional hours would be paid straight time which now leaves 5 hours of paid overtime.

You have a 40 hr week which includes a paid holiday. Maintenance works on a paid holiday. He is already getting paid for that day whether he works or not. If he works 8 hours on that paid holiday, the pay includes 8 hrs. for the paid holiday, 8 hrs for having physically coming in to work and the additional ½ rate since those 8 hours puts him over 40 hrs.

I will read payroll rules and adhere to their instructions.

The Board was well aware of my working hours. I always got my 2nd signature on checks by going to one of my commissioner's house during the evening.

Auditor's Reply

We disagree with the Authority's contention that overtime rate is allowable for holiday and/or vacation pay when an employee works 40 hours or more. The Authority should review the provisions of the Massachusetts Minimum Fair Wage Law and Regulations to ensure compliance with the law and accurate computation of employee overtime. The law requires that overtime compensation be based only on hours actually worked in excess of 40 hours. Furthermore, the Authority's response did not include controls to be put in place for future overtime payments. The Authority should establish controls to ensure that all overtime future payments be reviewed and pre-approved prior to their incurrence.

d. Inconsistencies in Executive Director's Reported Working Hours

The Authority's Personnel Policy states that the regular workweek for part-time Executive Directors managing 54 units of Elderly Housing and 10 houses for family housing shall be a minimum of 18 hours. 75% of the total hours (13.5 hours) may be worked between the hours of 8:00 a.m. and 6:00 p.m. Monday through Friday. The remaining 25% (4.5 hours) may be worked evenings or weekends for the purpose of appointments and/or the completion of work-related assignments. The Authority's Management Plan states that the office hours and days that the Authority is to be open to the general public are Tuesdays and Thursdays of each week between 7:30 a.m. and 2:30 p.m. Contrary to these established policies, the Executive Director's monthly timesheets revealed that hours recorded were not consistent with the office hours and days that the Authority is open to the general public.

During our field work on site, we observed on many Tuesdays and Thursdays that the Executive Director was not present on-site; however, hours for those days were still recorded on her timesheet. She stated that much of the Authority's business was, and is, conducted at her home.

Consequently, the Authority cannot adequately ensure that the Executive Director's timesheets, which are not approved by a Board member, accurately reflect her hours worked, the maintenance employee's on-site work efforts are properly supervised, the needs of the Authority's tenants are being addressed, and applicants for low-income housing have access to needed information.

Recommendation

The Authority needs to strengthen the controls over its payroll system by developing and implementing personnel policies that require employees to certify the accuracy of their timesheets and instruct management to timely review and approve employee timesheets. In addition, the Authority should improve oversight controls over its payroll records by (1) requiring that standardized employee timesheets be developed and prepared, reviewed, and approved weekly, which is the standard business practice of other local housing authorities; (2) adopting procedures to ensure that all employee time records and accrued benefit records are timely maintained and documented to substantiate employees' work hours and leave time for each pay period; (3) requiring that all overtime be reviewed and pre-approved prior to its incurrence, (4) reviewing and updating the Authority's payroll policies to include, at a minimum, a policy that requires timely supervisory approval of all employee time records, accrued benefit records, and overtime; and (5) adhering to DHCD policies regarding reviewing expenses for allowability and accuracy.

The Authority, as the employer, should recover through reimbursement the \$2,853.34 in incorrectly computed overtime benefits paid to its maintenance employee and any unauthorized and undocumented payments made to its Executive Director. The Authority should inquire with the Plymouth County Retirement Board regarding retirement contributions withheld for its Executive Director to be certain that the proper compensation amount has been subjected to retirement withholding.

The Authority's Board of Directors should closely monitor the overall process and authorize any changes or additions made to the Authority's personnel policies. Also, the Authority should ensure that the Executive Director's contract and the Personnel Policy are updated and submitted to DHCD for review and approval.

Auditee's Response

In response to these issues, the Executive Director stated, in part:

Since office work cannot be accomplished during public hours and now I had the additional work load, the public hours had been changed in hope of the Director gaining more workable hours. We neglected to update the Personnel Policy. Policy is now consistent with the posted hours.

The Director's contract has been renewed.

Auditor's Reply

Since the corrective measures taken by the Authority occurred after the completion of our audit fieldwork, we cannot express an opinion on their adequacy, and we will review any and all corrective actions taken during our next scheduled audit.

2. IMPROVEMENT NEEDED REGARDING VACANCY TURNAROUND TIME AND VACANCY REPORTING

Our review of the Authority's vacant unit turnaround time disclosed that the Authority had excessive delays in preparing vacated apartments for occupancy and may have lost the opportunity to earn approximately \$33,884 in potential rental income because it did not prepare and fill units on a timely basis. Specifically, it took the Authority an average of 152 days to prepare and fill the vacant units, well beyond the recommended 21 days as defined by the DHCD guidelines for maintenance.

There were 28 units with excessive vacancies during the audit period (April 1, 2007 to March 31, 2009). Two units had been vacant for over a year. Also, 24 vacant units filled by the Authority took an average of 21 additional days to be reoccupied from the date they were ready for occupancy. As of March 31, 2009, 10 of the 28 units still required refurbishment. Details of the vacancies are as follows:

<u>Program</u>	<u>No. of Units</u>	<u>Total Days Vacant</u>	<u>Days in Excess of DHCD Guidelines</u>	<u>Loss of Potential Rental Income</u>
667	24	4,928	3,884	\$31,150
200	<u>4</u>	<u>550</u>	<u>384</u>	<u>2,734</u>
Total	<u>28</u>	<u>5,478</u>	<u>4,268</u>	<u>\$33,884</u>

Chapter 1 of DHCD's Property Maintenance Guide states, in part:

One primary responsibility of your LHA (Local Housing Authority) is to reoccupy vacancies as fast as possible. Every day a unit is vacant is a day of rent lost. Vacancies also invite vandalism and signal trouble if they linger. It is particularly important, therefore, to have vacancy refurbishment as a high priority in the assignment of work to your staff. Since this work does not have an "advocate" (e.g. an occupant asking for the work to be done), it can be easy to abandon work in progress on a vacancy when other residents make maintenance requests. This must be resisted. One of the ways to do this is to have someone on your LHA staff be the insistent voice reminding everyone of the importance of completing the vacancy work. . . .

DHCD believes a reasonable outside limit for turning around vacancies is 21 working days where notice has been given. The maintenance portion of the vacancy process should not take longer than 14 days. DHCD requires the vacancy ledger to document the reasons for vacancy periods of longer than 21 days.

The DHCD report dated January 15, 2009 noted that a site visit review conducted on October 15, 2008 revealed that:

"The vacancy rate at MHA is unreasonably high. Seventeen (17%) percent of the MHA's units at the Chapter 667 development are offline due to mold, remediation and leaking showers. The project has been on-going since approximately April 2007, and has resulted in the unauthorized payment of additional salary to the Executive Director and overtime to the maintenance foreman. Given the amount of time allocated to this project and the fact that the MHA could have hired additional staff, the vacancy rate should not be this high. MHA is encouraged to work closely with DHCD to ensure a quick repair of these units to get them back online."

The DHCD report further stated that the Authority has not timely submitted vacancy reports according to its guidelines, specifically, noting that the quarterly vacancy reports, ending March 31, 2008 and June 30, 2008 were not submitted until September 10, 2008. Lastly, the report stated that technical assistance can be provided to MHA, if needed in order to submit these reports.

By not complying with DHCD's 21-day unit turnaround requirement and not maintaining accurate waiting lists, the Authority has adversely affected its overall financial condition and delayed state-subsidized housing for its elderly and family applicants.

Recommendation

The Authority should implement procedures to ensure that all vacant units are occupied within DHCD's 21-day timeframe to provide housing to eligible applicants in a timely manner and to earn much needed additional revenue.

Auditee's Response

In response to these issues, the Executive Director stated, in part:

Required online Quarterly Vacancy Reports were not done in a timely manner. I have been filing them closer to the due date.

Auditor's Reply

Since the corrective measures taken by the Authority occurred after the completion of our audit fieldwork, we cannot express an opinion on their adequacy, and we will review any and all corrective actions taken during our next scheduled audit.

3. OPERATING RESERVE SIGNIFICANTLY BELOW THE MINIMUM RECOMMENDED LEVEL

The Authority has experienced a decline in its operating reserve account due to questionable salary and overtime payments authorized by the Board of Directors and incurred by the Executive Director and the maintenance employee (see Audit Result No. 1). The Board of Directors did not fulfill its fiduciary responsibilities to provide adequate oversight of Authority operations, resulting in an operating reserve balance below the DHCD-recommended minimum level. As a result, the Authority may not have the financial resources necessary to fund emergency situations or maintain the current level of services provided.

The Authority's operating reserve balances have declined below DHCD's suggested minimum levels, as follows:

<u>Date</u>	<u>Operating Reserve Balance</u>	<u>Minimum Operating Reserve Balance</u>	<u>Over (Under)</u>
September 30, 2006	\$34,765	\$44,270	\$ (9,505)
September 30, 2007	27,224	44,283	(17,059)
September 30, 2008	31,440	52,201	(20,761)

Prudent business practices advocate that the Authority should have sufficient reserves to pay for any unforeseen expenses. Moreover, Section 14 of DHCD's Accounting Manual states, in part:

DHCD believes the one true indicator of the financial status of a management program is a correctly calculated operating reserve. Operating reserve is not just the combination of unrestricted and restricted net assets but is calculated by adding certain GAAP

expenditures to the total of these two balances The purpose of the operating reserve is threefold. First, the operating reserve allows LHAs to have funds necessary for cash flows. Some months more cash is paid out than is received and it is therefore necessary to have additional cash to meet these needs. Second, LHAs must have reserve funds to meet emergency situations such as major boiler or roof repairs that have not been anticipated in the budget. Third, the operating reserve is used to fund non-routine expenditures such as the replacement of refrigerators and ranges. DHCD has established full and minimum balances for operating reserves that act as benchmarks for LHAs to assess the relative value of their operating reserve balances. The problem in evaluating the operating reserve has always been the question of what is the true balance. The operating reserve actual balance is always some balance either positive or negative, but the true operating reserve balance requires an analysis of the balance sheet and an understanding of how balance sheet items affect operating reserve.

DHCD's January 15, 2009 Special Scope Review disclosed in part that the unauthorized \$19,346 paid to the Executive Director in the form of additional salary and \$62,199 paid in overtime to the maintenance foreman, totaling \$81,545, have depleted the Authority's reserve account (see Audit Result No. 1).

The Authority's operating reserves have dwindled because the Board has not fulfilled its fiduciary responsibility for the overall proper administration of the Authority by establishing general policies and guidelines, approving contractual agreements, monitoring performance, and planning for future activities.

Recommendation

The Authority should adhere to DHCD's policies and guidelines to ensure that it has adequate reserve funds available for any unforeseen occurrences. The Board should take a more active role in providing oversight for Authority operations.

Auditee's Response

In response to these issues, the Executive Director stated, in part:

With the mold remediation behind us, the Authority is operating on a daily basis in maintenance mode unless an emergency arises. As in the past, expenditures are for the operation and maintenance of the Authority unless an emergency occurs.

Auditor's Reply

Since the corrective measures taken by the Authority occurred after the completion of our audit fieldwork, we cannot express an opinion on their adequacy, and we will review any and all corrective actions taken during our next scheduled audit.

4. MANAGEMENT PLAN NEEDS TO BE UPDATED

Our review of the Authority's Management Plan showed that this plan was created in 1987, and was revised in 1994. Although the plan had the necessary components, such as organization, personnel policies, job descriptions, DHCD regulations, etc., we did not note many updates in these areas since its inception. Specifically, we noted outdated DHCD regulations. If any updates had been made to this plan since 1994 there were no dates or initials of the person(s) performing the updates. Documentation of updates is important in order to reflect changes in the Authority's policies and procedures as well as any changes in the Authority's scope of operations.

An updated complete Management Plan is the basis for establishing and maintaining the systems necessary for administration of public housing, as well as implementing a system of internal control and ensuring compliance with DHCD's internal control requirements.

DHCD's Accounting Manual for State-Aided Housing Programs states, in part:

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.

Assure the accuracy and reliability of accounting data.

Promote operational efficiency.

Encourage adherence to prescribed Managerial Policies, State Statues, and DHCD Rules and Regulations.

Additionally, 760 Code of Massachusetts Regulations (CMR) 4.00, *General Administration of Local Housing Authorities*, Section 4.03, states, in part:

From time to time the Department may develop and issue guidelines and/or standard forms to be used by the LHA in connection with the provisions of 760 CMR 4.00, 5.00, 6.00, 8.00, 11.00, 49.00, and 53.00 and with reports required by the Department. Each LHA shall employ the current guidelines and the current forms.

Furthermore, 760 CMR 5.16 states, in part:

It is the responsibility of each LHA to ensure that it is adhering to the current guidelines and utilizing all current forms.

The Authority's Management Plan would document all current guidelines, policies, and forms as required by the CMRs.

Recommendation

The Executive Director should update the Authority's Management Plan, and ensure that all updates are initialed and dated.

Auditee's Response

In response to these issues, the Executive Director stated, in part:

The Plan will be read and updated with the Board's approval.

5. GOVERNANCE, OVERSIGHT, AND MONITORING NEED IMPROVEMENT

The various problems at the Authority resulted from a severe breakdown of the system of controls and checks and balances (i.e. governance) that are supposed to be exercised by the Board of Commissioners (Directors) in fulfilling its fiduciary responsibility to set policy, give direction, and monitor and oversee the activities of the Authority. These responsibilities are intended to ensure that the Authority's fiscal affairs and operations are conducted in compliance with applicable laws, rules, and regulations. Generally accepted government auditing standards require officials and employees who manage public programs to render an accounting of their activities so that the public can be assured that government funds are being handled properly and in accordance with applicable laws, rules, and regulations.

In a letter dated January 15, 2009 to the Authority's Executive Director, DHCD described several concerns, including questionable and inappropriate practices that need to be addressed. Furthermore, the letter stated that "the Authority must develop and implement appropriate internal controls to ensure that there is compliance with department policies and procedures."

Recommendation

To fulfill its oversight responsibilities, the Authority should review all phases and functions of the Authority and strengthen the system of internal controls. To this end, the Authority's Board needs to play a stronger role in overseeing and monitoring the operations of the Authority.

Auditee's Response

In response to these issues, the Executive Director stated, in part:

The Board is given copies of all Housing correspondence and is made aware of expenditures through the signing of checks and reviewing monthly financial reports. Due to the health & safety urgency, the Dept. of Health and DHCD imposed a strict timeframe for the mold to be removed. This work could not be accomplished within a 40 hour week. Board members did numerous site visits to view the progress of this large task for one man. The Board remains diligently involved in overseeing the monitoring the operations of this Authority.