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

Making government work better

Official Audit Report-Issued February 27, 2014

Natick Housing Authority

For the period October 1, 2009 through December 31, 2011

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February 27, 2014

David P. Parish, Chair
Natick Housing Authority
4 Cottage Street
Natick, MA 01760

Dear Chairman Parish:

I am pleased to provide this performance audit of the Natick Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, October 1, 2009 through December 31, 2011. My audit staff discussed the contents of this report with management of the agency, and their comments are reflected in this report.

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

Sincerely,

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

At the request of the Natick Housing Authority's board of commissioners and the Department of Housing and Community Development (DHCD) and 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 Authority for the period October 1, 2009 through December 31, 2011. The purpose of our audit was to determine the factors that may have contributed to the Authority's negative unrestricted net asset account balance (formerly known as the operating reserve) and determine whether its corrective action plan to improve its financial and operational position is feasible. Specifically, the objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) administrative expenditures; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivable; (5) payroll and fringe benefits; (6) procurement practices; and (7) administration of modernization funds. In addition, we reviewed the Authority's progress in addressing the condition noted in our prior audit report (No. 2010-0729-3A).

Based on our audit, we have concluded that, except for the issues addressed in the Detailed Audit Results and Findings section of this report, for the period October 1, 2009 through December 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

Highlight of Audit Findings

- The Authority was still not reoccupying units in a timely manner during our current audit period; this was also a problem during our previous audit period. During our current audit period, as a result, the Authority lost the opportunity to earn $438,013 of potential rental income.

- During our audit period, the Authority exceeded budgeted amounts for administrative salaries by up to 5% annually and did not report these salaries accurately to DHCD in accordance with DHCD's budget guidelines. If the Authority does not report administrative salaries correctly, DHCD cannot monitor amounts paid to the Authority's staff to ensure that they are appropriate.

- The maintenance staff was being paid overtime after working only 37.5 hours rather than the required 40 hours in a work week, and there was no monitoring of the use of the time clock by the executive director or the administrative staff. As a result, maintenance personnel were paid in excess and may not be working all the hours for which they are being paid.

Recommendations of the State Auditor

- The Authority should establish adequate internal controls to refurbish units more quickly in accordance with DHCD regulations.
- The Authority should prepare, and submit to DHCD, budgets that accurately reflect each line item; adhere to DHCD's budget guidelines; and do not exceed DHCD limits for salaries.
- The Authority should not pay overtime for less than 40 hours of work; it should not approve manually signed time cards; and it should strengthen internal controls over maintenance staff attendance.

OVERVIEW OF AUDITED AGENCY

The Natick Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority manages 422 units: 325 one-bedroom elderly units; 29 two-bedroom, 20 three-bedroom, and 3 four-bedroom family units; 8 one-bedroom special-needs units; and 8 two-bedroom, 25 three-bedroom, and 4 four-bedroom scattered family units. The Authority also administers seven mobile vouchers under the Massachusetts Rental Voucher Program; these are vouchers granted to tenants, valid for any housing unit that meets the standards of the state sanitary code.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the Natick Housing Authority's board of commissioners and the Department of Housing and Community Development (DHCD) and 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 Authority for the period October 1, 2009 through December 31, 2011. The purpose of our audit was to determine the factors that may have contributed to the Authority's negative unrestricted net asset account balance (formerly known as the operating reserve) and determine whether its corrective action plan to improve its financial and operational position is feasible. Specifically, the objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) administrative expenditures; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivable; (5) payroll and fringe benefits; (6) procurement practices; and (7) administration of modernization funds. In addition, we reviewed the Authority's progress in addressing the condition noted in our prior audit report (No. 2010-0729-3A).

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.

To achieve our audit objectives, we reviewed the following:

- 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 tenant accounts-receivable balances were written off properly.
- Procedures for making payments for payroll, travel, and fringe benefits to verify compliance with established rules and regulations.

- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- Contract-procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- 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 complete, accurate, and submitted to DHCD in a timely manner.
- The Authority's unrestricted net asset account to determine to what extent the Authority's unrestricted net asset balance fell below the minimum level recommended by DHCD and to verify 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 that funds were received and disbursed in accordance with the contracts.
- The Authority's progress in addressing the issue noted in our prior audit report (No. 2010-0729-3A).
- The Authority's corrective action plan that was submitted to DHCD in September 2011.

Additionally, we gained an understanding of the internal controls that we deemed significant to our audit objectives and evaluated the design and effectiveness of these controls. Specifically, we performed procedures such as interviewing personnel, reviewing policies, analyzing records, and examining documentation supporting recorded transactions.

When performing our audit, we relied on hardcopy source documents and therefore did not consider the reliability of the Authority's information system controls. 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.

Based on our audit, we have concluded that, except for the issues addressed in the Detailed Audit Results and Findings section of this report, for the period October 1, 2009 through December 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

1. Prior audit result unresolved—Vacant units were not occupied within the Department of Housing and Community Development's guidelines.

Our prior audit (No. 2010-0729-3A) of the Natick Housing Authority, which covered the period July 1, 2007 through September 30, 2009, found that the Authority's average turnaround time for reoccupying units was 120 days. The Property Maintenance Guide promulgated by the Department of Housing and Community Development (DHCD) indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. As a result of the longer turnaround time, the Authority lost the opportunity to earn approximately $194,000 in potential rental income.

Our follow-up audit found that the Authority had 96 units vacated during our audit period, 22 of which were still vacant as of December 31, 2011. For the 74 units that were reoccupied, the average reoccupancy time was 181 days: an average of 170 days was spent refurbishing the units, which took an average of 11 days to lease after they were ready. In addition, there were 23 units that were vacant for the entire audit period. As a result, during our audit period, the Authority lost the opportunity to earn $438,013 of potential rental income, as shown in the following table:

Project	Potential Lost Income of Units Vacated During Audit Period	Potential Lost Income of Units Vacated Before Audit Period and Still Vacant at End of Audit Period	Total
Housing for the Elderly/Disabled	$ 146,497	$ 185,443	$ 331,940
Family Housing	39,107	9,897	49,004
Scattered Family Housing	22,890	34,179	57,069
Total	$ 208,494	$ 229,519	$ 438,013

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

> *One primary responsibility of your LHA 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.*

The delay in reoccupancy was caused by the Authority's lack of adequate internal controls over the process for refurbishing units in a timely manner. For most of the audit period, the Authority did not have any policies and procedures for its maintenance staff to follow in preparing vacant units to be refurbished and reoccupied. In September 2011, the Authority introduced a corrective action plan that included policies and procedures for the maintenance staff to follow when units become vacant in order to expedite the process of getting units ready to be reoccupied.

Recommendation

The Authority should continue to ensure that the controls it has established for the refurbishing of its vacant units are followed so that these units can be reoccupied in accordance with DHCD guidelines.

Auditee's Response

> *Units that remained vacant from the prior audit period, July 2007 – September 2009, were in deplorable condition and required a major influx of funds and staff time that the [Authority] did not have at the time. The [Authority] therefore focused their time, attention and funding on those units that were in better condition and therefore more manageable to turnover. The goal was to generate income as quickly as possible. That income could then be used to help fund the rehabilitation and unit turnover of other units.*
>
> *In early 2013, DHCD reactivated their vacant unit rehabilitation program, which had been offline for some time. The [Authority] immediately applied for this funding. The [Authority] was awarded $315,016 to rehabilitate 23 elderly and 4 family units. All units were rented for July 1, 2013.*
>
> *In November 2013, DHCD issued another round of vacant unit funding and the [Authority] applied. Just days ago, DHCD awarded $174,420 to rehabilitate 22 units. The project will go out to bid in February 2014 and we plan to have those units rehabbed and rented by May 2014. At that time we will be current with all long-term vacant units.*
>
> *By bringing units back on line, the [Authority] has increased their bottom line. In order to keep up with preventative maintenance and to turn all subsequent vacancies over within 21 days, the [Authority] recently hired a new Director of Maintenance. The [Authority] will also be bringing on 3 additional maintenance staff. With the addition of skilled maintenance staff, the [Authority] is more capable of keeping up with preventative maintenance while also turning units over within 21 days.*
>
> *Currently, the [Authority] has eight elderly and three family units vacant. Six of the elderly units will be completed by 1/31/2014, leaving just two elderly vacant units. Two units will be completed by 2/15/2014 and one by 3/1/2014.*

Auditor's Reply

Although we recognize that the Authority was experiencing financial problems during the audit period, we still believe that the lack of policies and procedures over the vacancy turnover process contributed to the delays the Authority experienced in reoccupying its vacant units. Consequently, we again emphasize that the Authority needs to ensure that it adheres to the controls it has established over this activity.

2. Administrative salaries were questionably budgeted and were misreported.

During our audit period, the Authority exceeded budgeted amounts for administrative salaries by up to 5% annually and did not report these salaries accurately to DHCD in accordance with DHCD's budget guidelines. If the Authority does not report administrative salaries correctly, DHCD cannot monitor amounts paid to the Authority's staff to ensure that they are appropriate.

The Authority's board of commissioners, at its November 2008 meeting, voted to increase the executive director's and administrative staff's salaries by 5% for fiscal year 2009, effective January 1, 2009. This increase was to be paid out of the Authority's Other Program Revenue account, which was not reflected in the Authority's budgets or financial statements submitted to DHCD.

In our review of administrative salaries, we compared the budgeted amounts to the actual salaries paid and found that the executive director's and all other administrative salaries paid were over the approved budgeted amounts by 5% in fiscal year 2009, 2% in fiscal year 2010, and 1% in fiscal year 2011, for a total excess amount of $24,768. The budgeted amounts for administrative salaries for fiscal years 2009, 2010, and 2011 totaled $297,817, $305,706 and $309,833, respectively, whereas the actual rate paid was based on a total of $312,708 for each of the three fiscal years. Because the board of commissioners approved these salaries to be funded by the Other Program Revenue account rather than including the increased amount in the Authority's budget or financial statements, DHCD was not aware of the increase in administrative salaries.

This action is contrary to 760 Code of Massachusetts Regulations 4.05, which states, in part,

> *If the LHA and the executive director shall have negotiated an employment agreement to be funded in whole or in part by the Department, the Department shall have approved the agreement. The Department shall establish guidelines setting standards for approval of such employment agreements. . . . The total expenditures for salaries and wages shall not exceed the amount in the approved budget for salaries and wages without the approval of the Department.*

All budgets for administrative salaries submitted to DHCD for its approval should accurately reflect the actual amount of salaries paid.

Recommendation

The Authority should prepare, and submit to DHCD, budgets that accurately reflect each line item; adhere to DHCD's budget guidelines; and do not exceed DHCD limits for salaries.

Auditee's Response

Authority management chose not to respond to this audit finding.

3. The Authority did not have adequate internal controls over its maintenance overtime, time clock, and time cards.

Our audit identified two areas where the Authority needs to strengthen its internal controls over payroll. Specifically, we found that the maintenance staff was being paid overtime (at a rate of one and one-half times their regular hourly rate of pay) after working only 37.5 hours rather than after 40 hours in a work week, as required by the Massachusetts law, and DHCD policy. As a result, maintenance workers are being paid more than required. Our audit further found that the Authority was not monitoring the use of the time clock by the executive director or the administrative staff, raising the concern that maintenance staff may not be working all hours for which they are being paid. Our review of five weeks of payroll records during the audit period revealed nine instances of overtime paid to maintenance employees after only 37.5 hours in a work week rather than the required 40 hours under state law, resulting in excess overtime paid to the maintenance staff.

The regular scheduled work week for the maintenance department is 37.5 hours. Chapter 151 of the Massachusetts General Laws—Minimum Fair Wage Law and Regulations—states that overtime compensation is based only on hours actually worked in excess of 40 hours. In May 2010, the Authority's board of commissioners questioned the practice of paying overtime for hours worked over 37.5. In June 2010, the Authority received a letter from DHCD stating that regular time should be paid for all hours up to 40 and overtime rates should be paid for hours worked over 40 per week. However, the Authority continued its existing practices until April 25, 2011, at which time the current Executive Director issued a memorandum to all maintenance employees indicating that, effective immediately, time and a half would not be paid until hours worked exceeded 40.

We were unable to determine why this had been happening under the previous Executive Director because he was no longer working at the Authority. However, we did speak to the current Executive Director, who told us that she was originally unaware of the problem because she was not reviewing the time cards or signing the payroll (the previous Executive Director had been responsible for those tasks). After almost a year's time, when she became aware that the problem was occurring, she sent out the previously mentioned memorandum to end the practice.

The Authority's personnel policy requires its maintenance staff to punch a time clock each day. The time clock is located in the maintenance garage, with no oversight by the administrative staff or the executive director, who approves the maintenance staff's time cards weekly. In our review of payroll records, we noted that in four of the five weeks tested, there were several instances of manual sign-ins and sign-outs by the maintenance staff. These time cards were approved by the executive director even though the requirement of using a time clock to punch in and out had not been followed.

Recommendation

The Authority should not pay overtime for less than 40 hours of work; it should not approve manually signed time cards; and it should strengthen internal controls over maintenance staff attendance.

Auditee's Response

> *The [Authority] pays maintenance staff a 37.5 hour weekly wage. Should overtime be necessary, time and half is paid only after time worked goes over forty hours. . . .*
>
> *The Director of Maintenance and Modernization is responsible for the oversight of proper use of the time clock by all maintenance staff. This will assure that each maintenance employee punches the clock.*