Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump
Making government work better

Official Audit Report – Issued April 23, 2014

New Bedford Housing Authority

For the period January 1, 2012 through March 31, 2013

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April 23, 2014

Bruce J. Oliveira, Chair of the Board of Commissioners
New Bedford Housing Authority
134 South Second Street
New Bedford, MA 02740

Dear Chairman Oliveira:

I am pleased to provide this performance audit of the New Bedford Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2012 through March 31, 2013. My audit staff discussed the contents of this report with management of the Authority, and their comments are reflected in this report.

I would also like to express my appreciation to the New Bedford 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

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 New Bedford Housing Authority for the period January 1, 2012 through March 31, 2013.

The objectives of our audit were to review and analyze the adequacy of the Authority's internal controls and to evaluate its compliance with laws, rules, and regulations applicable to state-aided housing programs in the areas reviewed. In addition, we reviewed the Authority's progress in addressing the issues noted in our prior audit report (No. 2011-5140-3A); determined whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities involving state funds related to the Authority and, if so, assessed the propriety of these transactions; and determined whether the Authority had addressed the deficiencies in its internal controls over employee reimbursements that had led to a theft of federal funds before our audit period.

Summary of Findings

- The Authority paid fringe benefits to its executive director but did not report the applicable amount for these benefits as required on his 2012 Internal Revenue Service (IRS) IRS Form W-2 Wage and Tax Statement (W-2 form). Specifically, the Authority paid $650 per month for a leased vehicle for the executive director, as well as his life-insurance premium, as part of his original and current contractual agreements. These fringe benefits were not reported on the executive director's 2012 W-2 form. Therefore, the executive director's W-2 form understated his taxable compensation for calendar year 2012.

- During our audit period, the Authority had not developed or implemented an adequate system of internal controls over its inventory of state-owned furniture and equipment. Specifically, the Authority was not performing a physical inventory annually; items that had been disposed of remained on the current inventory record; selected inventory items could not be located; some inventory entries did not include items' inventory tag numbers; and some items did not have an inventory tag attached at all. In addition, the Authority did not include state-owned refrigerators and stoves on the inventory record. As a result of these internal control deficiencies, the Authority's inventory records cannot be relied on to reflect all acquisitions and disposals of inventory items. Further, the lack of an up-to-date and reconciled inventory record creates an undue risk of undetected loss, theft, or misuse because it prevents the Authority from reliably accounting for items' whereabouts.

- Our prior audit report disclosed that the Authority had excessive delays in preparing vacant units for occupancy and therefore may have lost $153,934 in potential rental income. During our current audit, we found that the Authority had made progress in reducing the vacant-unit turnaround time but was still not completely adhering to the Department of Housing and Community Development's (DHCD's) guidelines. We found that there were 64 vacant units that had turnaround times longer than the recommended 21 working days by an average of 19 days per unit. This resulted in an estimated rental income loss of $11,199 for the 15-month audit period.

- Our prior audit revealed that the Authority was not maintaining a handwritten master file ledger[1] and waiting list ledgers[2] as required by DHCD. In addition, the Authority had not used approved DHCD tenant application forms for making preliminary determinations of eligibility for state-aided housing. The Authority was using electronic forms that had not been approved by DHCD. Our current audit revealed the Authority has continued the practice of not maintaining a handwritten master file ledger and waiting list ledgers and has continued to use electronic applications, contrary to DHCD regulations.

- Our prior audit revealed that the Authority was not in compliance with DHCD regulations concerning the appropriate housing of tenants according to family size and unit size. Our current audit revealed that 2 tenants out of 25 tested occupied units that DHCD regulations would consider over-housed based on family size.

- Our prior audit report disclosed that, for 20 of 20 tenant files we reviewed, the Authority had not executed lease addenda for tenants eligible for continued occupancy during the time of their annual rent determinations. Our current audit revealed that there were signed lease addenda in each of the 25 tenant files we reviewed, in compliance with DHCD regulations.

Recommendations

- To determine the taxable fringe-benefit amount, the Authority's human-resources manager should calculate the taxable fringe benefit attributable to the leased vehicle and the amount of the premium paid for the executive director's life insurance coverage that exceeds the IRS threshold of a $50,000 benefit. The Authority should report the calculated amount to its payroll service for inclusion on the executive director's W-2 form for calendar year 2013 and all subsequent years and also submit amended W-2 forms for any previous calendar years affected by this issue.

- The Authority should incorporate into its written policies and procedures the calculation of fringe-benefit amounts for employees and the communication of these amounts to its payroll service for correct reporting to the IRS.

- The Authority should conduct an annual physical inventory and reconciliation of state-owned assets and include in its inventory all refrigerators and stoves. The annual physical inventory should reconcile the written inventory list of state-owned assets with each item located. The list should contain all DHCD-required inventory information.

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1 The master file ledger is a ledger listing information on applicants for state-aided public housing in chronological order for all state housing programs.

2 The waiting list ledger is a ledger for a specific state housing program listing information on applicants for state-aided public housing in chronological and preferential order.

- The Authority should maintain a perpetual inventory list and update it each time an inventory item is acquired or disposed of.

- The Authority should affix an identification tag to each item.

- The Authority should make sure that employees responsible for inventory are kept up to date on current DHCD requirements.

- The Authority should take measures to reduce its average turnaround time for reoccupying vacant units to comply with DHCD's 21-day guideline. This action should not only improve the Authority's financial condition by maximizing its rental income, but also more expeditiously house its waiting-list applicants.

- The Authority should document the reasons for delays in filling vacant units and seek waivers from DHCD for units that cannot reasonably be reoccupied within the standard timeframe.

- The Authority should comply with DHCD guidelines by using approved application forms and maintaining a handwritten master file ledger and handwritten waiting list ledgers in a format approved by DHCD.

- The Authority should move tenants into appropriately sized units as they become available so that larger units become more readily available for families. Furthermore, any changes in tenant family size requiring a unit adjustment should be addressed in a timely manner to comply with DHCD regulations and ensure that families are housed appropriately.

OVERVIEW OF AUDITED AGENCY

Background

The New Bedford 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 134 South Second Street in New Bedford, Massachusetts. The Authority currently manages and oversees 389 elderly housing units, 168 family units, 330 veterans' units, and 16 special-needs units. The Authority also manages 155 vouchers under the Massachusetts Rental Voucher Program and the Alternative Housing 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 the New Bedford Housing Authority for the period January 1, 2012 through March 31, 2013.

The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its internal controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) financial operations, including reasonableness of administrative expenditures such as executive compensation and benefits, subsidy calculations, rent collections, the collectability of accounts receivable, cash controls, and the administration and oversight of development and modernization fund expenditures; (2) eligibility determinations, redeterminations, and tenant selection; (3) procurement of goods and services, including the use of collective purchasing and inventory controls over supplies and equipment; (4) site inspections; (5) contracting and leasing procedures; (6) cost allocation (we reviewed the cost-allocation plan for reasonableness of methodology to determine whether the allocation amounts supported budgeted items); (7) compliance with the Department of Housing and Community Development's (DHCD's) financial reporting and data collection requirements; and (8) determined whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities involving state funds related to the Authority and, if so, assessed the propriety of these transactions. In addition, we reviewed the Authority's progress in addressing the issues noted in our prior audit report (No. 2011-5140-3A). Further, we determined whether the Authority had improved the inadequate controls over employee reimbursements that had led to a theft of federal funds before our audit period.

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 gained an understanding of internal controls and tested their operating effectiveness over the following areas: financial operations, vacancies, annual rent determinations, site unit inspections, administrative expenses, property and equipment, contract procurement, and operating subsidies, as well as modernization. Any deficiencies in internal controls are identified in the Detailed Audit Results and Findings section of this report.

Further, we conducted audit testing in the following areas:

- We reviewed the Authority's policies and procedures for the administration of employee salaries, travel, and fringe benefits and verified compliance with established requirements.
- We reviewed operating subsidies and confirmed that all subsidies that the Authority earned were consistent with the amount it received based on DHCD's Housing Authority Financial Information System reports and the Office of the State Comptroller vendor Web payments.
- We tested 25 out of 380 tenant accounts listed on the tenant accounts subsidiary ledger to ensure that rent collections were timely and that uncollectible tenant accounts-receivable balances were written off properly.
- We reviewed cash management and investment policies and practices by verifying bank statements, bank reconciliations, and board meeting minutes to determine that the Authority maximized its interest income and that its deposits were fully insured.
- We tested 5 out of 37 DHCD modernization grants and Authority payments to modernization contractors by examining contracts, board meeting minutes, and vendor Web payments.
- We examined all vacancy records by examining the vacancy ledger to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- We tested 31 out of 494 annual rent-determination procedures by examining the tenant files to verify that rents were calculated properly and in accordance with DHCD guidelines.
- We tested 10 out of 65 procedures for state-owned property and equipment listed on the inventory record and determined the adequacy of the Authority's controls to protect, and account for, these assets in accordance with DHCD regulations.
- We reviewed site-inspection procedures and records to verify compliance with DHCD inspection requirements and determine whether selected housing units were in safe and sanitary condition.
- We tested 4 out of 22 contracts to verify compliance with applicable laws and DHCD requirements for awarding contracts. Further, we tested 31 out of 5,780 purchase orders for proper authorization (board meeting minutes, purchase orders, bids, and quotes) and to verify that goods were received and payments properly disbursed.
- We reviewed the Authority's cost-allocation methodology and verified the DHCD-approved operating budgets for fiscal years 2012 and 2013 in comparison with actual expenditures. We also reviewed and verified line-item and total amounts to ensure that they were within budgetary limits.

- We reviewed the adequacy of procedures in place and in effect to collect data and ensure that required financial reports were complete, accurate, and submitted to DHCD in a timely manner.
- We determined whether the Authority had conducted any transactions involving state funds with related associations, corporations, or other private entities.
- We performed searches and matches using Web-based search engines and the Commonwealth Secretary of State's corporate database to determine whether the Authority's senior management and board of directors had conducted any transactions with related associations, corporations, or other private entities involving state funds. To obtain audit evidence, we used a statistical random sample for contract procurements and non-statistical judgmental or random sampling in the testing of tenant accounts, modernization grants, vacancy records, annual rent-determination procedures, property, and equipment. We selected samples from throughout the audit period. The results of the non-statistical tests cannot be projected to those populations.
- We obtained revenue, subsidy, 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 the data. We determined that the data were sufficiently reliable for the purposes of this report.

Based on our audit, we have determined that for the period January 1, 2012 through March 31, 2013, except for the issues addressed in the Detailed Audit Results and Findings section of this report, the Authority maintained adequate internal controls and complied with applicable laws, regulations, and policies and procedures in the areas reviewed. We determined that no Authority-related associations, corporations, or other private entities were involved in financial and/or management activities involving state funds related to the Authority. We also found that the Authority had resolved one of the issues noted in our prior audit report and was executing lease addenda for tenants eligible for continued occupancy and that it had made improvements toward resolving its problems with vacancy turnaround, but still had not resolved issues with DHCD recordkeeping requirements for master files and waiting-list ledgers and the appropriate housing of tenants, which are described in detail in this report.

Finally, we found that the Authority had improved its internal controls over employee reimbursements that were inadequate and that had led to a theft of federal funds before our audit period.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

Audit Findings

1. The Authority did not adequately report taxable fringe benefits for its executive director.

The Authority paid fringe benefits to its executive director but did not report the applicable amount for these benefits as required on his 2012 Internal Revenue Service (IRS) Form W-2 Wage and Tax Statement (W-2 form). Specifically, the Authority paid an amortized amount of $650 per month for a leased vehicle for the executive director, as well as his life-insurance premium, as part of his original and current contractual agreements. We confirmed with the Authority's human-resources manager that although these fringe benefits were paid to the executive director, they were not reported on his 2012 W-2 form. Therefore, the executive director's W-2 form understated his taxable compensation for calendar year 2012.

Authoritative Guidance

IRS Publication 15-B, "Employer's Tax Guide to Fringe Benefits," states that "any use of a company-provided vehicle that is not substantiated as business use is included in income."

Under "Group-Term Life Insurance Coverage," IRS Publication 15-B states,

> *Coverage over the limit. You must include in your employee's wages the cost of group-term life insurance beyond $50,000 worth of coverage, reduced by the amount the employee paid toward the insurance. Report it as wages. . . . The amount is subject to social security and Medicare taxes, and you may, at your option, withhold federal income tax.*

The Fringe Benefit Overview in the same form states,

> *Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it. Section 2 discusses the exclusions that apply to certain fringe benefits. Any benefit not excluded under the rules discussed in section 2 is taxable.*

Our audit found that there were no exclusions in Section 2 of IRS Publication 15-B that would apply to the fringe benefits for the leased vehicle and the life insurance premium paid for by the Authority on behalf of the executive director.

Reasons for Inadequate Tax Reporting

The Authority's human-resources manager did not provide the necessary fringe-benefit information to the private payroll service that the Authority uses to process its payroll and tax information.

When we asked her about this matter, she told us she was unaware that these fringe benefits should be included on the executive director's W-2 form.

Recommendation

- To determine the taxable fringe-benefit amount, the Authority's human-resources manager should calculate the taxable fringe benefit attributable to the leased vehicle and the amount of the premium paid for the executive director's life insurance coverage that exceeds the IRS threshold of a $50,000 benefit. The Authority should report the calculated amount to its payroll service for inclusion on the executive director's W-2 form for calendar year 2013 and all subsequent years and also submit amended W-2 forms for any previous calendar years affected by this issue.
- The Authority should incorporate into its written policies and procedures the calculation of fringe-benefit amounts for employees and the communication of these amounts to its payroll service for correct reporting to the IRS.

Auditee's Response

> *Since this issue was brought to our attention, the benefits have been included on the Executive Director's W2.*

2. The Authority did not have adequate inventory controls.

During our audit period, the Authority had not developed or implemented an adequate system of internal controls over its inventory of state-owned furniture and equipment. Specifically, the Authority was not performing a physical inventory annually as required by the Department of Housing and Community Development's (DHCD's) guidelines. In addition, items that had been disposed of remained on the current inventory record, and selected inventory items could not be located. Some other inventory entries did not include items' inventory tag numbers, and some items did not have an inventory tag attached at all. Finally, the Authority did not include state-owned refrigerators and stoves on the inventory record. As a result of these internal control deficiencies, the Authority's inventory records cannot be relied on to reflect all acquisitions and disposals of inventory items. Further, the lack of an up-to-date and reconciled inventory record creates an undue risk of undetected loss, theft, or misuse because it prevents the Authority from reliably accounting for items' whereabouts.

Our examination of the 65 state-owned inventory items listed on the Authority's system of record revealed that several items lacked tag numbers. Our non-statistical judgmental sample of 10 of these 65 items revealed the following:

- Two items shown on the inventory list could not be physically located during our test. The Authority informed us that these items had been disposed of, but provided no documentation to confirm that.

- Three items that we examined during our physical inspection were located at the proper locations, as indicated on the Authority inventory list, but were not tagged with an Authority inventory tag. In addition, two of the three items did not have an inventory tag number recorded on the inventory list, and we noted upon inspection that there were no tags located on the items. The third item had a tag number recorded on the inventory list, but a physical inspection of the item revealed no identifying Authority tag.

Since the sample selection process involved a non-statistical judgmental approach, and is not a statistical approach, the results cannot be projected to the entire population, but only to the items selected.

In addition, contrary to DHCD regulations, the Authority did not include refrigerators and stoves on its inventory record.

Authoritative Guidance

Section 15(D) (Inventory of Equipment) of the DHCD Accounting Manual for State-Aided Housing Programs requires the inventory procedures excerpted below:

> *1) Establish [hardcopy records] or use an automated system.*
>
> *2) Tag all equipment with an inventory tag with an assigned asset number.*
>
> *3) Take an inventory once a year.*
>
> *. . .*
>
> *Physical inventory results must be compared to equipment record and any differences and discrepancies will be reviewed by the [local housing authority] for possible adjustments.*

The same section also states that "refrigerators and stoves are to be included [on the inventory] regardless of price."

Reasons for Inventory Control Deficiencies

According to Authority management, the fact that the accounting clerk had retired and his duties had been assumed by other employees was a factor in the inventory not being reconciled. Although the chief financial officer assumed responsibility for the inventory and reconciled the financial amounts on the inventory list to the general ledger, with new items added for the period January

2012 through March 2013, he did not reconcile the listed summary of items in the inventory to the physical identification of items on hand as of December 31, 2012. Further, Authority management had not made the performance of an annual inventory and reconciliation a priority, and as a result, missing and untagged items were not properly accounted for. Furthermore, the Authority did not have a perpetual-inventory system whereby items were added to or removed from the inventory record as they were acquired or disposed of. Regarding the inventory record for stoves and refrigerators, Authority personnel were unaware of DHCD regulations that these items needed to be incorporated into the inventory record.

Recommendation

- The Authority should conduct an annual physical inventory and reconciliation of state-owned assets and include in its inventory all refrigerators and stoves. The annual physical inventory should reconcile the written inventory list of state-owned assets with each item located. The list should contain all DHCD-required inventory information.
- The Authority should maintain a perpetual inventory list and update it each time an inventory item is acquired or disposed of.
- The Authority should affix an identification tag to each item.
- The Authority should make sure that employees responsible for inventory are kept up to date on current DHCD requirements.

Auditee's Response

> *In response to finding number two, I would disagree with your conclusion that the Housing Authority has not conducted an annual inventory.*
>
> *STOCK INVENTORY: The Housing Authority in fact conducted full and complete inventory in both 2012 and 2013. The latest inventory audit was conducted just prior to our consolidating our inventory into a central warehouse, a move designed to provide better inventory control.*
>
> *INVENTORY OF EQUIPMENT: During 2013, the Housing Authority converted summary asset records into detailed records by location and reconciled the assets to the general ledger's asset, depreciation and contra accounts. Acquisitions were recorded and assets that were approved for disposal were removed from the listing. A five-year summary of disposed assets was produced to assist in monitoring the Housing Authority's activity and assets.*
>
> *Using the updated inventory information, the Housing Authority began taking a physical inventory (non-stock) in mid-2013, beginning with computers and office equipment. Each office was visited and detailed information was obtained for each assets. The asset records were updated, adding the serial number, model and cost. Asset tags were added or re-added to equipment and write-offs were approved at the October board meeting. The physical inventory for maintenance equipment followed a similar process and write-offs were approved at the December board meeting completing the physical inventory for 2013. The detailed physical inventory list will be*

used on an annual basis to complete a physical inventory and updated as assets are added and deleted.

. . .

The Housing Authority admits that a number of refrigerators received thru an NSTAR energy efficiency program were not tagged since the items were not purchased using State funds. As such, we concluded (incorrectly) the items were technically not State property. These refrigerators have since been tagged and the Housing Authority will update its inventory policy for stoves and refrigerators.

Auditor's Reply

Our examination of the Authority's verification process of its 2012 year-end inventory of state-owned assets revealed that the procedure was incomplete. Our testing revealed that items listed on the inventory were missing, items were not tagged with an Authority sticker for items listed on the inventory as tagged, and stoves and refrigerators were not included in the consolidated list. These are not characteristics of an annual reconciled inventory process, nor are they in compliance with DHCD inventory guidelines. Our audit period was January 1, 2012 through March 31, 2013, and therefore many of the changes in its inventory process for 2013 that the Authority mentions in its response fall outside the audit period. However, based on its response, the Authority is taking measures to improve its inventory process.

3. Three findings from our previous audit report regarding unit turnover, recordkeeping, and over-housing were unresolved.

Our prior audit work at the New Bedford Housing Authority was part of a statewide audit (No. 2011-5140-3A) covering the period July 1, 2008 through November 30, 2010. This audit found that the Authority had deficiencies in (1) reoccupation of vacant units, (2) compliance with DHCD eligibility and selection procedures, and (3) compliance with DHCD regulations concerning over-housing of tenants.

a. Vacant units were not reoccupied within DHCD guidelines.

Our prior audit report disclosed that, contrary to DHCD guidelines, and despite the fact that it had not obtained a waiver of the applicable guidelines, the Authority's average turnaround time for reoccupying vacant state-aided units was 95 days for 216 vacant housing units for families and elderly residents. As a result of this deficiency, the Authority may have lost $153,934 in potential rental income.

Our current audit revealed that the Authority's average turnaround time for all 64 vacant housing units for families and elderly residents was 19 days longer than the 21-working-day turnaround time given in DHCD's Property Maintenance Guide. We found that the Authority still had not sought waivers to exempt these units from the turnaround-time guideline established by DHCD.

Because it did not adhere to the DHCD Property Maintenance Guide's procedures on filling vacant units in a timely manner, the Authority did not realize $11,199 of potential rental income. In addition, individuals on the waiting list were not provided with housing in a timely manner. At the time of our audit, there were 1,089 applicants on the Authority's waiting list.

The guideline states,

> *[DHCD] believes a reasonable outside limit for turning around vacancies is 21 working days where notice has been given. . . . This calculation of time includes all days from the first date on which rent is not collectible (either legally or practically) until the first day on which rent payments resume under the new lease. The maintenance portion of the vacancy process should not take longer than 14 days. Many vacancies should take far less time, such as routine vacancies in elderly buildings, and some will take substantially more. The 21 days should be seen as a good target for your average turnaround time. [DHCD] requires your vacancy ledger to document the reasons for vacancy periods of longer than 21 days.*

Authority management stated that complying with DHCD's 21-day timeframe was not realistic given their current resources. They also indicated that there were units that required extensive maintenance to address health and safety issues before the units could be reoccupied.

Recommendation

- The Authority should take measures to reduce its average turnaround time for reoccupying vacant units to comply with DHCD's 21-day guideline. This action should not only improve the Authority's financial condition by maximizing its rental income, but also more expeditiously house its waiting-list applicants.
- The Authority should document the reasons for delays in filling vacant units and seek waivers from DHCD for units that cannot reasonably be reoccupied within the standard timeframe.

Auditee's Response

> *In regards to item three (a), although pleased in the reduction in trending from 90 days (previous audit) to the 41 day findings in this audit, it is my position that the 41 day*

> *average does not accurately reflect the vacancy reduction effort put forth by the state maintenance staff to try and comply with the 21 day turn-around time.*
>
> *Your inclusion of all state-funded units in the average, without exemptions, is not indicative of our average turn-around time in such a manner that it fails to recognize that there were extra-ordinary circumstances that impacted on, and delayed the Authority's ability to turn around a vacant unit within the 21 days. We requested that an allowance be considered for the 104 units at four developments that are undergoing modernization in order to be federalized as part of an American Recovery and Reinvestment Act (ARRA), as well as 5 units with extended vacancy days to address health and safety issues.*
>
> *. . .*
>
> *In review of our vacant units and vacancy days (186 vacant units/7640 vacancy days) for your audit period, I would concur that our average turn-around time was 41.08 days. However, allowing for the exemption of the federalization units (144 vacant units / 4825 vacancy days), the figures would indicate an average turn-around time of 33.51 days. Allowing for the exemption of the federalization units and the five special circumstances (139 vacant units / 4072 vacancy days), the figures would indicate an average turn-around time of 29.09 days. While this number exceeds the statutory 21 days, it is well within the 60 days turnover guidance in DHCD Public Housing Notice 2013-02 and is a much clearer indication of actual unit turn-over.*

Auditor's Reply

Our audit only included an analysis of the turnaround time for reoccupying vacant state housing units. All units in question that were online and included in any lost revenue calculation because of vacancy were discussed with DHCD; no units that DHCD considered to be offline were included in the calculation, nor were the 144 federal units that were noted in the Authority's response. DHCD Public Housing Notice 2013-02 was issued effective January 1, 2013, three months before the end of the audit period. The notice imposes a fee upon local housing authorities that do not achieve a turnaround time of 60 days for vacant units without a DHCD-approved waiver. The fees escalate for vacancies beyond 90 days. Our analysis of unit reoccupations is based on DHCD's Property Maintenance Guide, which specifies 21 days as a reasonable target for average vacancy turnaround.

b. The Authority did not comply with DHCD recordkeeping requirements for its tenant application process and waiting lists.

Our prior audit revealed that the Authority was not maintaining a handwritten master file ledger[3] and waiting list ledgers[4] as required by DHCD. In addition, the Authority had not used approved DHCD tenant application forms for making preliminary determinations of eligibility for state-aided housing. The Authority was using electronic forms that had not been approved by DHCD. Using such forms to process applications makes it possible for information such as the date of the application to be modified and/or recorded electronically before a copy has been printed and signed by a tenant. Our previous audit recommended that the Authority strengthen controls over the eligibility process and make the requisite changes to its policies and procedures to comply with regulations.

Our current audit revealed the Authority has continued the practice of not maintaining a handwritten master file ledger and waiting list ledgers and has continued to use electronic applications, contrary to DHCD regulations. The Authority stated that it has applied to DHCD for a waiver that exempts it from using a standard application form. However, DHCD informed the audit team that it had not granted such a waiver and did not anticipate granting one in the near future because the form in use by the Authority does not meet the standards required by DHCD.

The master file ledger and the waiting list ledgers, which determine the proper order of placement of housing applicants in state-aided housing units, include a list of all applicants. The master file ledger also includes a control number, the applicant's name and date of application, and a matrix determining the applicant's priority and preferences. The waiting list ledger includes the control number and information regarding priority and preference status. The waiting list ledger is used to select the next eligible applicant for a vacant state-aided housing unit.

Per 760 Code of Massachusetts Regulations (CMR) 5.16(2), local housing authorities must maintain handwritten ledgers in accordance with guidelines issued by DHCD, and the ledgers

3 The master file ledger is a ledger listing information on applicants for state-aided public housing in chronological order for all state housing programs.

4 The waiting list ledger is a ledger for a specific state housing program listing information on applicants for state-aided public housing in chronological and preferential order.

are public information that must be available for public inspection. In addition, 760 CMR 5.05 requires local housing authorities to use tenant application forms approved by DHCD.

Recommendation

The Authority should comply with DHCD guidelines by using approved application forms and maintaining a handwritten master file ledger and handwritten waiting list ledgers in a format approved by DHCD.

Auditee's Response

> *The Housing Authority has been utilizing a computerized waiting list for many years. Our software has been tested and meets the same criteria of the manual waitlist. It is incomprehensible how any Agency in the 21st century would be advocating for manual reports. The Housing Authority has made numerous requests in the past to DHCD for a waiver to no avail.*

Auditor's Reply

We agree that standards should be established to enable housing authorities to utilize electronic master file ledgers and waiting list ledgers as long as they provide the same safeguards as handwritten ledgers were intended to provide. However, to date, DHCD has not granted a waiver to the Authority for the use of its electronic ledgers and therefore, the Authority is out of compliance with the regulations.

c. The Authority did not comply with DHCD regulations regarding over-housing of tenants.

Our prior audit revealed that the Authority was not complying with DHCD regulations concerning the appropriate housing of tenants according to family size and unit size. Our review of 20 tenant files revealed that four units were occupied by tenants who were considered to be over-housed according to DHCD regulations.

Our current audit revealed that 2 out of 25 non-statistically, randomly tested tenants were over-housed according to DHCD occupancy standards as described in 760 CMR 6.03. We found that one two-bedroom unit had been occupied by a single tenant since March 31, 2008 and a three-bedroom unit had been occupied by 2 tenants since January 1, 2008. DHCD regulations require that a tenant's household size be based on an appropriate number of bedrooms for the size of the family in the housing unit; both these units were above the allowable number of bedrooms per occupant under those regulations. Not placing tenants in appropriately sized housing in accordance with DHCD occupancy regulations can prevent the Authority from housing other families who may need larger units.

Since the sample selection process involved a non-statistical judgmental approach, and is not a statistical approach, the results cannot be projected to the entire population, but only to the items selected.

The Authority acknowledged that these tenants were over-housed but indicated that it is difficult to comply with this regulation given the limits of housing inventory, the existing tenant-selection regulations, and a very long waiting list for emergency housing. One issue, according to the Authority, is that changes in family size may result in over-housing: tenants are assigned a housing unit for a specific number of residents, and if one or more resident moves out, the unit is too large for the new, smaller number of tenants. Another issue is that under DHCD guidelines, the Authority must first give preference to emergency applicants. If applicants require housing because of homelessness, fire not due to negligence or intentional acts, floods, or other natural causes, the Authority must place them in a housing unit, even if the only available units are too large for that number of residents.

Recommendation

The Authority should move tenants into appropriately sized units as they become available so that larger units become more readily available for families. Furthermore, any changes in tenant family size requiring a unit adjustment should be addressed in a timely manner to comply with DHCD regulations and ensure that families are housed appropriately.

Auditee's Response

> *The Authority acknowledges that there are some tenants that are over-housed but we are challenged to comply with this regulation given the limits of our existing inventory and tenant selection regulations. Within the non-elderly family developments, the [Authority] has only twenty-five one-bedroom units and of these twenty-five, five are handicapped accessible units which limit our ability to move tenants into appropriate sized units. In the case of two-bedroom units, the Authority only has 249 units which again hinders our ability to relocate tenants.*
>
> *The transfer of any tenants to appropriate sized units is not only stymied by inventory, but also by tenant selection requirements set forth by DHCD. Under their regulations, the Housing Authority must first give preference to emergency applicants which, needless to say is a very long waiting list, and as long as there are emergency applicants on that waiting, tenant transfers are unlikely to occur. The ability for us to transfer over-housed*

tenants is out of our control as long as DHCD regulations stipulate who we are to house on a priority basis. That said, if we were ever able to get to the transfer list, under-housed residents would be given first priority.

Auditor's Reply

We acknowledge the difficulty and challenges of transferring tenants. Nevertheless, the Authority should make every effort to ensure that all tenants are appropriately housed according to DHCD regulations.

4. Our prior audit result regarding noncompliance with DHCD regulations regarding tenant lease addenda was resolved.

Our prior audit report disclosed that, for 20 of 20 tenant files we reviewed, the Authority had not executed lease addenda for tenants eligible for continued occupancy during the time of their annual rent determinations. Our prior audit recommended that the Authority comply with DHCD regulations for preparing and executing lease addenda so that tenants would have valid leases that would be legally binding with regard to changes incorporated by addenda (e.g., changes in rent or number of occupants).

Our current revealed that the Authority had introduced new lease addendum forms since our prior audit. Our audit tests revealed that there were signed lease addenda in each of the 25 tenant files we reviewed, in compliance with DHCD regulations.

OTHER MATTERS

The Authority experienced a theft of $13,800 in federal funds between March 2009 and February 2010 by an employee from its Modernization, Planning, and Development Office. The employee pleaded guilty in April 2013 to the crime of larceny over $250 for crimes that involved fraudulent reimbursement requests for classes he never attended, equipment he never purchased, and travel that he never completed. The individual was given a two-and-a-half year prison sentence, suspended for five years, and ordered to make restitution to the Authority for the $13,800. This event occurred before our current audit period and before the appointment of the Authority's current executive director.

We interviewed the current executive director and the comptroller of the Authority regarding this matter at the start of our current audit, on May 17, 2013. They indicated that the Authority's previous director of Modernization, Planning, and Development used a rubber stamp for signature purposes on approval of disbursements. Since the theft, disbursement policies and procedures have been changed and updated. The executive director and comptroller told us that the use of the rubber stamp has been discontinued and all invoices are now signed by hand in the Modernization, Planning, and Development Office. Further, all invoices are sent to the executive director and comptroller for review after the goods are received and the chief financial officer conducts an audit of the disbursements. The Authority further indicated that it had replaced personnel in the Modernization, Planning, and Development Office and that the former director had left, which we verified by interviewing individuals in the Modernization, Planning, and Development Office as part of our testing of receipt and disbursement of modernization funds.

From our internal control testing of the disbursement procedures currently in place and in effect, the Authority's current procedures appeared to be adequate.