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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE RANDOLPH HOUSING AUTHORITY APRIL 1, 2002 TO SEPTEMBER 30, 2004

OFFICIAL AUDIT REPORT

FEBRUARY 6, 2006

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain activities of the Randolph Housing Authority for the period April 1, 2002 to September 30, 2004. The objectives of our audit were to (1) assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and (2) evaluate the Authority's compliance with laws, rules, and regulations applicable to each program. 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 30-month period ended September 30, 2004.

In May 2004, the Authority's outside Fee Accountant noted that the April 2004 tenant rental income was short by at least $21,765. Moreover, the Bookkeeper, who had gone on vacation in May, did not return to work as scheduled. The former Executive Director and Fee Accountant gained access to her locked desk and discovered $5,692 in cash and $10,614 in rent checks (a total of $16,306). An analysis and comparison of tenant rent rolls, accounts receivable, and deposit activity indicated an immediate shortage of $5,459. This matter was turned over to the Norfolk District Attorney's Office, and at a February 2005 District Court appearance the former Bookkeeper was charged with embezzlement.

Our analysis and comparison of tenant rent rolls, accounts receivable, and deposit activity from January 2003 to December 2003 found that deposits were not made in a timely manner, and tenant accounts receivable increased from $0 to $5,194. Furthermore, tenant accounts receivable for 2004 could not be reconciled because of a lack of documentation, incomplete files and records, and the embezzlement.

In addition, because of problems with the Authority's maintenance department, the number of vacant units has steadily increased from four to 22, resulting in additional lost rental income estimated at $6,000 per month.

The Authority owns and operates coin-operated washers and dryers in its three facilities. An analysis of their activity during the period before, during, and after the audit period revealed below-normal collections from March 2003 to September 2004, indicating potential lost revenue. During three months in 2004, no deposits were made for laundry receipts, and during another two month period only half of the average laundry revenue was deposited. As a result, we estimated that lost laundry income totaled $5,401 for the period.

job requirement. In its response, the Authority indicated that this practice has been eliminated.

In addition, our test of goods, services, and payroll expenditures found that from June 2003 to February 2004, one of the two required signatures on checks was a Board Member's rubber-stamp signature. Although the Board member whose signature stamp was used had not attended a Board meeting since June 2003, he did not submit his resignation until October 2003. The signature stamp for this Board member continued to be used in his absence until February 2004, four months after his resignation. The current Executive Director has destroyed the stamp.

We found that the Authority expended over $13,000 from January 2003 to September 2004 on new furniture and equipment. However, we determined that no inventory records were maintained, and no increases were reflected in the Furniture and Equipment Account on the Authority's balance sheet or general ledgers. The Authority, in its response, indicated that it has taken a physical count of all of its property and assets.

The Authority experienced several break-ins, break-in attempts, and an apparent arson attempt during the audit period. Illegal entries have been made into tenant apartments, the administration office, and the maintenance department shop and office, and there have been reports of illegal drug activity on Authority property involving tenants and employees.

The Authority, in its response, indicated that it changes locks whenever residents move out, and that it is working closely with the Randolph Police Department to ensure the safety of residents and staff.

In addition to the internal control breakdowns identified throughout this report, we noted several additional conditions which were problemmatic. For example, our review found missing and incomplete records, staff improperly making personal purchases, abuse in the use of an Authority vehicle, overpayment of a employee, tax reporting issues, and the inappropriate use of a computer.

The Authority lacks a documented system of approved policies, procedures and practices for all phases of its operations, including cash management, inventory, purchasing, hiring, tenant selection, and rent determinations.

Some of the primary purposes of internal controls are to safeguard income and assets and ensure the complete and accurate accounting of transactions and events. The Authority needs to adopt and implement a clear set of policies and procedures that are consistent with sound business practices, DHCD regulations, and all applicable laws to ensure that it has sufficient controls in place to preclude the recurrence of various problems at the Authority.

INTRODUCTION

Background

The Randolph Housing Authority manages 244 units of state-funded housing. Our audit, covering the period April 1, 2002 to September 30, 2004, found a complete breakdown in internal accounting and administrative controls at the Authority. Conditions had significantly deteriorated since our prior audit, and if not ameliorated will continue to undermine the financial stability and solvency of the Authority. The extent of the Authority's problems was unknown until the hiring of a new Executive Director in September 2004. Throughout our audit, tenants informed us that they saw persons, who were at the time employees, removing files and boxes of records from the office before the current Executive Director took over. We found that some records were missing, and records that were available, such as those for tenants, payroll expenditures, bank accounts, checkbooks, check registers, and inventory, were incomplete, inconsistent, or improperly maintained, indicating questionable practices and serious income-reporting, legal, and accountability issues for the Authority.

The Authority must recognize that it is responsible for the financial and physical condition of the Authority and the safety and security of its tenants and employees. It is the responsibility of Authority management, not auditors, to manage, prepare, maintain, and correct books and records. The responsibility of auditors is to verify whether management's representations in its books and records are reliable, complete, and accurate.

According to generally accepted government auditing standards (GAO-03-673G, Chapter 1, Roles and Responsibilities), management must establish and maintain internal controls, as follows:

> *Officials of the audited entity (for example, managers of a state or local governmental entity or a nonprofit entity that receives federal awards) are responsible for…establishing and maintaining effective internal controls to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed….*

With the cooperation of the current Executive Director and Department of Housing and Community Development (DHCD) officials, we identified many serious and significant internal control, financial, accounting, and management weaknesses that continued to arise throughout our

audit. The current Executive Director and Board Members have addressed those issues by initiating remedial action decisively and deliberately.

However, the extent of the problems at the Authority may not be fully known without a more extensive forensic investigative audit for the audit period and beyond, to at least December 31, 2004. Doing so would provide the necessary perspective into the current situation and status of the Authority, including the corrective measures taken by the Executive Director to resolve problems, reverse the downward slide of the Authority, restore governance and management stability, and uphold sound internal controls and business practices. Ultimately, however, it is the Board that bears fiduciary responsibility for the overall condition and welfare of the Authority and its tenants.

Accordingly, this report discloses conditions identified during our review beyond the audit period, including those corroborated or encountered by the current Executive Director, DHCD, and DHCD's former Regional Counsel.

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 Randolph Housing Authority for the period April 1, 2002 to September 30, 2004. The objectives of our audit were to (1) assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs and (2) 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

- Review of examination results of relevant records by DHCD's former Regional Counsel

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 30-month period ended September 30, 2004.

We thank the current Executive Director and former DHCD Regional Counsel for their cooperation and assistance during the audit.

AUDIT RESULTS

1. INADEQUATE CASH CONTROLS, RESULTING IN AT LEAST $9,590 LOST REVENUE

a. Tenant Rental Income

In May 2004, the Randolph Housing Authority's outside Fee Accountant noted that the April 2004 tenant rental income was short by at least $21,765. Moreover, the Bookkeeper, who had gone on vacation in May, did not return to work as scheduled. The Executive Director and Fee Accountant gained access to her locked desk and discovered $5,692 in cash and $10,614 in rent checks (a total of $16,306). An analysis and comparison of the tenant rent rolls, accounts receivable, and deposit activity indicated an immediate shortage of $5,459. This matter was turned over to the Norfolk District Attorney's Office, and at a February 2005 District Court appearance the former Bookkeeper was charged with embezzlement.

Our analysis and comparison of tenant rent rolls, accounts receivable, and deposit activity from January 2003 to December 2003 found that deposits were not made in a timely manner and tenant accounts receivable increased from $0 to $5,194. Tenant accounts receivable for 2004 could not be reconciled because of a lack of documentation, incomplete files and records, and the embezzlement. As a result, based on our analysis and comparison of tenant receivables before, during, and after the audit period, there could be additional shortages of tenant accounts receivable and collections. We reviewed tenant accounts activities, including collections, and found, as had the current Executive Director and current Fee Accountant, that the records were not maintained properly. They concluded, and we concur, that it is not cost-effective or practical to attempt to reconstruct actual and accurate balances. The Randolph Housing Authority must therefore move forward as best it can. Accordingly, the current Executive Director has instituted new collection procedures, and as a result, rental income has increased from a low of $56,348 for fiscal year 2003 to $60,328 for fiscal year 2004, and has remained at that level. This increase occurred despite vacancies and the prolonged turnaround time for occupancy which resulted from the Department of Housing and Community Development's (DHCD's) closing of the waiting list ledger and the denial of new applications because of serious irregularities.

Section 16 of the DHCD Accounting Manual requires all housing authorities to adopt an investment and cash management policy, as follows:

Authorities should adopt systems to perform the following: promptly recording and depositing cash, ensure that tenant accounts receivable are properly recorded and all cash collections for tenants are reconciled to the total tenants accounts receivable balance, a purchase order and payment system to ensure control over expenditures, the recording of cash receipts and disbursements to allow the housing authority to know its daily cash balance, and reconciling bank statements each month, and a method of forecasting the excess funds available for investment.

In addition, because of problems with the Authority's maintenance department, the number of vacant units has steadily increased from four to 22, resulting in additional lost rental income estimated at $6,000 per month.

We also found that the Authority was accepting rental payments in the form of cash from as many as 26 tenants. The current Executive Director is discouraging this practice, and rent receipts are now being deposited in a timely manner.

b. Laundry Income

An analysis of the activities in the Authority's Other Income account revealed a decline of over $8,000 from fiscal year-end 2003 to fiscal year-end 2004, indicating a potential additional shortage or loss of revenue. This account comprises laundry machine revenue and donated funds.

The Authority owns and operates coin-operated washers and dryers in its three facilities. An analysis of their activity during the period before, during, and after the audit period revealed below-normal collections from March 2003 to September 2004, indicating potential lost revenue. During three months in 2004, no deposits were made for laundry receipts, and during another two months only half of the average laundry revenue was deposited. As a result, we estimated that lost laundry income totaled $5,401 for the period.

We also found that laundry maintenance was not under contract, and the Authority did not have controls in place for scheduling the replacement of laundry machines and securing the related funds.

In addition, we found certain questionable wage reporting violations resulting from payments funded through the Laundry account, as follows:

- A non-employee received $700 for painting apartments in 2003, but did not receive a Form 1099 for that income.

The new Executive Director showed us a checking account entitled Laundry Account 40001 which contained 300 checks, of which 26 checks were utilized between the period from May 14, 2003 and June 4, 2004. Our review of the check stubs confirmed many of the $160 payments noted on page 7, as well as the $700 payment noted above. However, the checks stubs we reviewed contained either no explanation or inadequate explanations, and one check which was still negotiable had only one signature, that of the former Executive Director, which indicates that no second signature was required, contrary to DHCD regulations.

- The former Bookkeeper had her salary supplemented with cash in unreported $500 increments from the laundry funds because the former Executive Director believed she was being underpaid.

A review and analysis of the available bank statements and canceled checks revealed the transfer of funds from the Laundry account to the Donation account. We also found a box of checks imprinted "Board of Directors Account," believed to have been the predecessor of the Donation account. To determine the extent of this account's activity and whether that activity was proper, further investigation would be necessary. Upon further review, it was determined that because (a) the laundry income received was in the form of cash, (b) the laundry machines did not have coin counters, and (c) the Authority did not maintain proper records, it would not be practicable to further attempt to determine the extent of the loss and misuse of laundry revenue—except to the extent we have estimated above.

c. Donated Funds

A review of the Authority's Board of Directors meeting minutes revealed that the Board voted to establish a "Donation Bank Account" and open it with a $300 transfer from the laundry proceeds. This account was to be further funded by donations from local businesses and individuals for the purpose of financing parties, flowers, and tips, for which the expenditure of state funds is unallowable.

Our analysis found that in July and August 2003, $1,430 was raised in donations from outside parties who have done business with the Authority. Such fundraising violates DHCD regulations, specifically 760 Code of Massachusetts Regulations (CMR) 4.04 (2) (J), which states:

> *No LHA [Local Housing Authority] board member or employee or any member of his or her immediate family (whether on his or her own behalf or on behalf of another person*

or entity) shall request, solicit, receive or accept any cash, gift, or compensation in any amount from any LHA tenant, or any person or other entity who or which does or may reasonably be expected to do business with the Authority.

Our review of donations to this account revealed that all of the donors had done or were doing business with the Authority. In addition, our review disclosed the possible misuse and misappropriation of donated funds, as follows:

- A $25 restaurant gift card, which according to Authority staff was given to donors who made contributions to the Donation account, was found in a file cabinet.

- In August 2003, after the tenant cookout, the Board minutes noted that the Board approved "tipping the staff $300 from the caterer's fund." No such fund or account has been located, and the tip came from the Donation account. However, we believe that the Laundry account was used to supplement this "tip" payment: Whereas only $1,430 was raised from donors, $2,150 was expended to pay for the entire cookout.

- A part-time custodial worker, who is the former son-in-law of a Board member, was paid $160 per week from the laundry account, or a total of $2,314 in 2004. This sum was not reported as income on his Form 1099 or W-2.

- During our analysis of the Laundry account for 2003 and 2004, we noted that $4,780 in expenses had been paid from this account. In August 2004, a restaurant/caterer received $1,214 from the Laundry account, plus another $1,800 from the "Donation Account," totaling $3,014 for a tenant cookout, with the balance paid for vacuuming the community room.

This misuse and misappropriation of Authority income was enabled because the activity was not accounted for, controlled, or recorded on the official books of the Authority.

Recommendation

The Randolph Housing Authority should take the following steps:

- Ensure that all revenue and expenditures are recorded on the books of the Authority and close out and discontinue the use of any off-the-books accounts, such as the Donation, Board of Director's, or Caterers' accounts. The Authority should also discontinue the Laundry account, and instead record and deposit all revenues directly into the main account of the Authority.

- Install coin counters, prepaid scanner cards for each tenant, or some other effective device to ensure that all laundry revenue is accounted for, recorded, and deposited in a timely manner. Doing so would be more efficient and effective and eliminate the concern regarding theft. The Authority should also assess whether utilizing a maintenance contract would be more cost-effective than paying for each service call.

- Change, and keep current, signatories on all bank accounts.

- Cancel all membership cards to wholesaler clubs in the name of the former Executive Director and terminated employees. (The new Executive Director has rectified this problem.)

Auditee's Response:

The Randolph Housing Authority has taken corrective action in the collection of rents. Currently, the tenant rents are being recorded promptly and deposited on a daily basis. When cash is received in the office, it is immediately deposited in the bank. We try to discourage payment by cash. Receipts are also issued to these individuals.

The current tenants' receivable has been reconciled and we have accurate balances on all residents. We are actively collecting on all arrearages. There have been credits issued to residents that were victim to the embezzlement that occurred in May of 2004.

The Randolph Housing Authority has instituted a purchase order system. There were systems in place; however the last administration did not follow them. In reinstituting these we have gained controls over our expenditures.

The practice of soliciting funds for the purpose of hosting events for the seniors, flower donations, and tips has stopped.

We are in the process of acquiring pricing on coin counters for the laundry facilities. Currently, the Director and one other staff person collect the funds from the machines each month. We then promptly take the funds to the bank for deposit. I have advised the board to close the laundry account.

We have updated all signatories on all bank accounts.

Wholesale memberships were closed at the time of this audit.

2. INADEQUATE INTERNAL CONTROLS AND VIOLATIONS OF DHCD TENANT-SELECTION AND RENT-DETERMINATION REGULATIONS DEPRIVE QUALIFIED APPLICANTS OF HOUSING

Our review of the Authority found a lack of internal controls and violations of DHCD regulations regarding tenant selection and rent determinations. We determined that applications for tenancy and related records (i.e., the Waiting List Ledger (closed by DHCD), Vacancy Ledger, and Master Ledger) were incomplete, inaccurate, false, tampered with, improperly maintained, or recorded in pencil. Eight of the 10 tenant rent determinations that we tested were not accurate because supporting documentation was missing. Specifically, tenants may have been undercharged rent, because not all sources of income and assets had been identified.

Moreover, some tenants were housed in violation of DHCD regulations, because their files lacked documentation to support local, priority, veterans, or emergency status, or income

verification. In addition, the Authority's failure to obtain criminal offender record information (CORI) searches for potential tenants could subject the Authority to liability for negligence if crimes were subsequently perpetrated against other tenants or employees.

The following examples of violations of DHCD Regulations were found with the assistance of DHCD's Regional Counsel:

- One tenant was improperly housed under "emergency status"; the tenant reportedly came from property owned by the former Executive Director's father, who is in the real estate business.

- The former Executive Director reportedly housed a tenant after the Chairman of the Board purchased the house of the tenant's mother—a former board member who had resigned so that one of her sons could be hired as a maintenance employee. The tenant was housed in a family unit as homeless and disabled with a local preference. No verification of homelessness or disability was in his file; moreover, our examination and that of DHCD's Regional Counsel revealed no record in the Authority's files of any income or related interest derived from the sale of their home.

- One tenant came from property owned by the former Executive Director.

- The former Executive Director housed tenants prior to purchasing their property and later resold the property to other parties. An examination of the records obtained by DHCD's Regional Counsel revealed that three legal documents pertaining to a tenant and his wife (two "30-day notices to quit—termination of lease" and one "summary process—notice to vacate within 60 days") were signed by the tenants' daughter. When questioned, she claimed that she did not actually sign any of the documents. The former Executive Director was also a party to the transactions.

- There were many other questionable instances in which the former Executive Director, while serving in that capacity, appeared in court as landlord of the property in which he had an ownership interest. He was also the process server in many instances. The tenants were ultimately housed in the Randolph Housing Authority.

DHCD and its attorneys and investigators were reportedly pursuing the issue of these missing records and other questionable matters, and are expected to turn these matters over to the relevant authorities for further action. The results of this audit will also be forwarded to the applicable enforcement agencies.

We also determined that files for tenants who had been housed by the previous Executive Director were missing applications, indicating that those tenants had been housed improperly, thereby depriving qualified applicants on the waiting list of needed housing. Furthermore, 37%

of the Authority's tenants were young disabled applicants, exceeding the DHCD limit of 13%. Qualified eligible elderly applicants were therefore deprived of much-needed housing.

Furthermore, the time/date machine for stamping of applications at intake, which is the beginning of the housing process, was tampered with and broken, permitting the back dating of applications before the date the applicant completed the application. There were also blank applications on hand that had been pre-stamped with date and time; for example, applications completed, signed, and dated by an applicant in one month were machine-dated and stamped the previous month.

Recommendation

The Randolph Housing Authority should take the following actions:

- Reconstruct and rectify the tenant application waiting list and request DHCD to authorize the Authority to begin accepting applications.
- Start a new round of rent determinations and ensure that all tenant rents are fair and accurate.
- Ensure that all applicants that are housed meet the eligibility requirements of DHCD.

Auditee's Response

An initial response received from the Authority stated the following:

> *The Randolph Housing Authority has reconstructed the waiting list. DHCD had granted permission to close our list. During this period we undertook a waiting list update on all applications. That process has been completed and we currently have an accurate and updated applicant list. The Authority has reopened the list and is currently accepting applications.*
>
> *At this time we are housing applicants on our list. We are following all eligibility requirements set by DHCD. All applications have the proper documentation.*
>
> *There has been a new date and time stamp machine purchased. It is a tamper proof machine.*
>
> *A new round of rent determinations has been completed. The tenants have a fair and accurate rent. There is back up documentation to support the rent calculations. We have done both a manual determination as well as a computer generated determination. This will ensure that the rents are calculated correctly. In this process we have discovered some unreported income on several residents. Their rents have been adjusted accordingly.*

A subsequent response was received from the Authority regarding the housing of a former Board member's son by the former Executive Director after the Chairman of the Board purchased the property from the former Board member where the son had been residing.

> *"The Chairman of the Board was not cognizant of the fact that the former board member's son was on the waiting list of the housing authority.*
>
> *The home purchase was a private transaction in which there was no contingency for the son to be housed at the authority.*
>
> *It is an obligation of the Randolph Housing Authority to preserve the confidentiality of records in accordance with and to the extent provided by 760 CMR 8.00 and other applicable law."*

3. INADEQUATE REPORTING OF WAGES TO THE U.S. INTERNAL REVENUE SERVICE AND THE MASSACHUSETTS DEPARTMENT OF REVENUE

The Authority could not demonstrate that it had properly reported and filed the appropriate income information for 2003 with the U.S. Internal Revenue Service and the Massachusetts Department of Revenue for off-payroll payments to employees for painting, vacuuming, and office work done by them, as well as landscaping and painting by outside contractors. The Authority paid approximately $29,750 to such persons, as well as $1,300 in unreported compensation to a maintenance employee in the form of a $25 per week vehicle allowance. Although one employee was able to produce his Form 1099 and tax return, his Form 1099 was understated by approximately $2,000.

The current Executive Director prepared and reported the proper forms for the year 2004 for $44,428 in payments that otherwise may have gone unreported had she not been hired. However, the Form 1099 prepared for the part-time employee who vacuums the hallways was understated by $2,314. This amount (for vacuuming the hallways) had been paid out of the Laundry account—a questionable practice that the former Fee Accountant had discontinued. However, the current Executive Director was unable to send the 2004 Form 1099s to the landscaper because, as was the case in 2003, proper identification and address information could not be located. The landscaper reportedly also worked for the former Executive Director in his family's private real estate business. As was the case with the painters mentioned earlier, it could not be demonstrated what work the landscaper had performed at the Authority. We understand that this matter is being further investigated by the relevant authorities.

Recommendation

The Randolph Housing Authority should take the following actions:

- Ensure the proper reporting of all compensation paid both to employees and to non-employees via either Form 1099 Miscellaneous Income or Form W-2
- Ensure that all time, attendance, and payroll-related records are properly maintained

Auditee's Response

We are certain that proper reporting of all compensation paid to both employees and non-employees will occur in the future. We now have a reputable payroll company to handle all employee wages.

When an outside contractor is hired, they are asked to complete a W9 form before work is to begin.

The Authority also has a new software system. The system is capable of printing all 1099 forms from bills that have been paid at the end of the year. This will ensure accurate reporting to all required agencies.

4. INADEQUATE CONTROLS OVER CONTRACTED SERVICES

We determined that during the audit period, the Authority had a practice of paying for services (painting, landscaping, etc.) under the guise of contract services, although it had not solicited quotes for those services. We also found that in some cases the Authority's maintenance employees were performing the above contract work, which was routine and ordinary and should have been considered part of the maintenance workers' regular job requirement.

Section 16 of the DHCD Accounting Manual requires all LHAs to adopt a Procurement Policy, as follows:

It is necessary that all LHA's have a formal policy to control the purchases and contracts for equipment, materials, supplies, and services.

In addition, the Authority had no internal controls in place to determine whether the work was performed during or after regular work hours or on weekends. The Authority paid $495 per unit for painting that was supposed to have been done after regular work hours. Furthermore, invoices were prepared by hand and unit numbers were crossed out and changed, with dates denoting regular workdays and no times indicated. We also found supporting documentation that had been changed by hand, making the records unreliable. Furthermore, some of the outside landscapers failed to provide social security numbers and may have been working

illegally. As a result, the Authority was unable to send income-reporting Form 1099s both to these contractors and to the appropriate government agencies.

Our test of goods, services, and payroll expenditures found that from June 2003 to February 2004, one of the two required signatures on checks was a Board member's rubber-stamp signature. Although the Board member whose signature stamp was used had not attended a Board meeting since June 2003, he did not submit his resignation until October 2003. In addition, his signature stamp continued to be used, in his absence, until February 2004, four months after his resignation. The current Executive Director has destroyed the stamp.

Recommendation

The Authority should ensure that the cost and use of outside contracting is minimized and the use of employees as outside contractors is eliminated or resorted to only in emergency situations.

Auditee's Response

This practice has been eliminated. The Authority does not allow maintenance employees to contract out with the Authority. They are performing work that is considered part of the regular job requirement that is routine and ordinary.

We are currently working to reduce the use of outside contractors. When they are needed we solicit quotes from them, in accordance with policies that were in place but not followed.

In many instances in the past year we have needed outside help for emergencies that have occurred. We did receive permission form DHCD, in advance, to hire contractors on an emergency basis.

The Authority does have a procurement policy.

5. INADEQUATE CONTROLS OVER FURNITURE AND EQUIPMENT

We found that the Authority expended over $13,000 from January 2003 to September 2004 for new furniture and equipment. However, we determined that no inventory records were maintained and no increases were reflected in the Furniture and Equipment Account on the Authority's balance sheet or general ledgers. Section 16 of the DHCD Accounting Manual requires all LHAs to adopt a capitalization policy, as follows:

The purpose of a capitalization policy is to establish a minimum dollar value at which all purchased equipment with a life of at least one year be accounted for as a capital asset in the 1403/1404 Inventory of Equipment account and subsequently accounted for in the annual inventory of equipment.

Accordingly, there is a lack of internal controls and accountability over furniture, equipment, tools, and supplies. The Authority's Balance Sheet is inaccurate in this regard, and the Authority is unable to demonstrate or determine what assets it has, their location, and to what extent items may have been lost, stolen, removed from the Authority's property, or discarded due to their condition.

The current Executive Director has taken some steps to correct these deficiencies and pledged to continue to strengthen controls.

Recommendation

The Authority should take the following actions:

- Conduct a complete physical count of all its property and assets, noting location, condition, and value, and apply an asset number to each item
- Review all purchases made during the past 36 months to determine what it should have in its possession, determine what it does actually possess, and ascertain what is missing or unaccounted for
- Maintain a perpetual inventory record for all assets and ensure that controls are in place to safeguard those assets and ensure that they are accounted for
- Take steps to report and recover any missing items
- Ensure that its tax-exempt status is made use of during purchases

Auditee's Response

We have done, to the best of our ability, a physical count of all of our property and assets. We have attached asset tags to property that was missing tags. All purchases made have approval from the director and a property tag is immediately affixed to the item.

The new housing software system has the ability to track all the property and property numbers.

Tax-exempt status is ensured on all purchases

6. SAFETY AND SECURITY CONCERNS AT THE AUTHORITY

The Authority experienced several break-ins, break-in attempts, and an apparent arson attempt during the audit period. Illegal entries have been made into tenant apartments, the

administration office, and the maintenance department shop and office. Chapter 121B, Section 32, of the General Laws requires all LHAs to provide safe and sanitary housing, as follows:

> *It is hereby declared to be the policy of this Commonwealth that each housing authority shall manage and operate decent, safe and sanitary dwelling accommodations at the lowest possible cost, and that no housing authority shall manage and operate any such project for profit.*

Also, a maintenance employee discovered that the entrance door to one of the apartment buildings had been tampered with, making the automated door inoperable and creating a serious fire safety hazard for the elderly tenants. There was also evidence that maintenance trucks and maintenance workers' personal vehicles had been broken into and vandalized while on Authority property.

Furthermore, incidents of illegal drug activity on Authority property involving tenants and employees have been reported. These incidents have been brought to the attention of local law enforcement authorities.

As a result of these occurrences, for the second time since November of 2004, the Authority has incurred the extraordinary cost of changing all of the locks in the building, including tenants' apartments.

Furthermore, during the snowstorms of 2005, a handicapped ramp, stairs, and emergency exits were blocked, either because snow was not immediately removed or because it was plowed into these areas. In addition, because a window was left open in the sixth-floor tenants' trash room during these snowstorms, snow and ice formed there, creating a hazardous situation that could have resulted in liability to the Authority.

Finally, a review of unit and tenant files revealed no evidence of completed yearly inspections.

Recommendation

One of the Authority's most important responsibilities is to provide for the safety and security of its tenants, employees, and property. The various reported illegal incidents and suspicious activities are serious matters, and the Authority should continue to work with appropriate authorities, including the police and fire departments.

The Randolph Housing Authority should also consider taking the following actions:

- Change the locks when a tenant moves and report all illegal activities to the proper authorities to ensure the safety of tenants and employees

- Ensure that the property is maintained in a manner that is safe for tenants, employees, and the public

Auditee's Response

Locks are changed every time a resident moves out of an apartment. The Authority has undertaken a master key system with all of its property. There are a limited number of keys that cannot be duplicated. The keys are numbered and assigned to a certain employee.

We are working closely with the Randolph Police Department to ensure the safety of residents and staff. The police have helped out significantly in securing evictions for actions of criminal conduct on our property. We would like to thank them for their assistance, in particular Lieutenant Richard Crowley and Chief Paul Porter.

7. INADEQUATE INTERNAL ADMINISTRATIVE, ACCOUNTING, AND MANAGEMENT CONTROLS

Some of the primary purposes of internal controls are to safeguard income and assets and ensure the complete and accurate accounting of transactions and events. The Authority needs to adopt and implement a clear set of policies and procedures, consistent with sound business practices, DHCD regulations, and all applicable laws, to ensure that it has sufficient controls in place to preclude the recurrence of various problems at the Authority. Doing so would help ensure safe and adequate housing for tenants and improve the safety of employees in an effective, efficient, and economical manner.

In addition to the serious internal control breakdowns mentioned throughout this report, we found the following problems at the Authority:

- Throughout the course of our audit, we found that certain records were missing and other records, such as those for tenants, payroll expenditures, bank accounts, checkbooks, check registers, and inventory records, were not completely, consistently, or properly maintained, indicating the existence of questionable practices and serious income-reporting, legal, and accountability issues at the Authority. Tenants reported that they observed persons, who were at the time employees, removing files and boxes of records from the office, before the current Executive Director was hired. As a result, certain documentation could not be located, and financial transactions and certain account balances could not be explained or confirmed. 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 being handled properly and in accordance with applicable laws, rules, and regulations. The events and activities identified in this report indicate that the Authority has failed to satisfy this requirement.

- Authority staff improperly made personal purchases through the Authority's accounts and had the goods shipped to their homes. The current Executive Director intercepted these invoices before payments were made, and the Authority's Board has allowed the employees to make restitution without having to face other consequences. Compounding the problem was the fact that these employees were related to a Board member.

- It was determined that an Authority employee, a maintenance worker, was improperly paid a higher salary rate as a licensed electrician after the current Executive Director determined that this individual's electrical license had expired 10 years earlier.

- The current Executive Director also determined that an employee was operating Authority vehicles without a valid driver's license and using the vehicles for vacation and other personal use, as well as for commuting to and from home. For these infractions, and the filing of false time sheets, the employee and his wife (also an employee) were suspended and eventually terminated by the Board.

- DHCD had notified the Authority in writing to reprimand the maintenance employee for an intimidating letter he had sent to tenants and posted regarding trash. During the transition to the new administration, pornography was also found on the computer in the maintenance shop.

- The Authority failed to report the personal use of Authority vehicles on the maintenance employee's Form W2.

- The Authority, as a tax-exempt government entity, is excused from paying gasoline taxes for gasoline used in its maintenance vehicles, as well as sales taxes on supplies and equipment. However, the Authority is unnecessarily adding to the cost of its operations by paying these taxes.

- The Authority lacks a documented system of approved policies, procedures, and practices for all phases of its operations, including cash management, inventory, purchasing, hiring, tenant selection, and rent determinations. In many cases, the practices it has followed have been inadequate and have lacked the controls necessary to ensure the integrity of the Authority's records and transactions. For example, there are no established job descriptions for each staff position to detail the minimum qualifications, background, and experience required to hire staff. Also, there is no policy describing the interview process and ranking of applicants so that the Authority can document and justify the hiring of the most qualified applicant. As a result, anyone could be hired based on favoritism or nepotism, without regard to important employment factors and considerations.

- Although employees took vacation and other leave during the period January 2003 to September 2004, payroll records did not properly reflect the use of leave, thus rendering these records unreliable and creating the potential for payment in the future of accumulated leave time which was actually depleted.

- We could not rely on the validity of the Authority's State Modernization Program records, as they were not reconciled with DHCD records. In addition, year-end balance sheets were not filed with DHCD, and not all work plans for 2003 were listed. Also, completed work plans were not closed, despite the completion of the work years earlier.

- The Authority could not produce minutes for every meeting of the Board at the start of our audit. The minutes that did become available for meetings during the tenure of the former Executive Director were vague and not as informative as minutes examined during previous audits.

- Management plans, policies, and procedures have not been updated for many years.

Recommendation

The Randolph Housing Authority should take the following actions:

- Adopt a plan of internal controls for controlling, reporting, and monitoring all phases of its operations

- Adopt a system of policies, procedures, and practices that is in compliance with the guidelines of DHCD's Accounting Manual

In addition, because Executive Directors in small LHAs such as Randolph perform most of the financial functions because there is little opportunity for segregation of duties, the Board must take a decisive role in fulfilling its fiduciary responsibilities of overseeing and monitoring the finances of the Authority.

Auditee's Response

We are working on updating policies and implementing new policies where needed. Sound business practices are being used. DHCD regulations and all applicable laws are being followed.

All records, tenant, inventory, accounting, and payroll are being properly maintained and secured.

Authority staff members are not allowed to make personal purchases through the Authority. That would be grounds for termination.

We have adopted a vehicle policy. There is no personal use of the authority vehicles. All maintenance staff have valid driver's licenses. These are kept on file and updated yearly. Vehicle allowances have stopped. Employees are paid mileage only, based on state

approved mileage allowances. We are no longer paying gasoline taxes. With the cooperation of town officials, we are now allowed to participate in the municipal fuel consumption program. This will enable us to avoid paying taxes on gas.

New policies have already been put into place. Job descriptions for our employees have been set up. We are working on updating old policies and instituting new ones.

Our payroll records are all up to date. We are using a payroll service that tracks all time off. We are also maintaining this information in the office with accurate time sheets that are approved weekly by the director.

The minutes to the board meetings are now accurate and informative. We have the minutes done by a former, reliable, retired employee. She also does the minutes for the town of Randolph planning board. The minutes are very detailed.

We are in the process of updating and adding to the Authority's management plan.

The Randolph Housing Authority board is aware that it needs to take a decisive role in the agency's fiduciary overseeing. They are monitoring, more closely, the finances of the Authority.

8. INADEQUATE GOVERNANCE, OVERSIGHT, AND MONITORING

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 February 16, 2005, DHCD described several concerns regarding the Authority that, along with other questionable and inappropriate practices that are the subject of this audit, need to be addressed. See Appendix for the full text of that letter.

Recommendations

The Board and the Executive Director need to work to put plans, policies, and practices back in place to correct problems, stabilize the Authority, and minimize the recurrence of problems and shortages.

In addition, DHCD should require its risk management unit to investigate reports of threats to safety. To protect and secure its revenues and safeguard its assets, the Randolph Housing Authority should:

- Notify the Town Clerk and Board of Selectmen of the vacancy on the Board because of a recent resignation. The Authority should advertise for candidates, including tenants, who are interested in assisting the Authority in fulfilling its responsibilities of providing safe, sanitary, and affordable housing.

- Stabilize and augment its maintenance workforce to bring its vacant units back into occupancy status in order to maximize revenue and curb the loss of rental income. The Authority should work with DHCD to develop and implement cooperative agreements among geographically contiguous Authorities (sharing costs), such as those of Holbrook, Braintree, Stoughton, Canton, Avon, and Milton, to develop mutual assistance plans—as do fire departments—to provide help to each other and reimburse each other for the costs of covering staffing shortages. Also, to expedite the turnaround of vacant units, the Authority should consider hiring a part-time maintenance person whose compensation would be equivalent to the combined total of vacation, holiday, personal and sick leave that a maintenance employee hired by any of the above-name authorities would normally accumulate.

- Review all phases and functions of the Authority and develop a system of internal controls and checks and balances to protect assets and revenues and to control costs.

- Develop a hiring process to ensure that employees are qualified and hired fairly.

- Maintain Board meeting minutes that accurately and fully reflect Board proceedings and decisions.

- Play a more decisive role in overseeing and monitoring the finances of the Authority through stronger internal controls.

Also, DHCD should take the following actions:

- Adjust its policy, requiring its risk management unit to investigate reports of threats to safety.

- DHCD should conduct risk-management reviews whenever there is a change in Executive Directors to identify any problems that might need attention. The results of these reviews should be routinely forwarded to the OSA to determine whether a more extensive audit might be needed.

- Require that all Fee Accountants report their concerns regarding questionable and suspicious activities directly to the Board and DHCD, both of which may then investigate and take any necessary remedial action.

- Encourage Boards to establish audit committees to facilitate fee accountants', auditors' and the Board's responsibilities pertaining to the Authority.

- Encourage Boards to rotate fee accountants and auditors in keeping with best practices and requirements in other industries.

Auditee's Response

The Randolph Housing Authority board is working diligently to correct past problems at the agency. For the first time ever there is a resident on the Randolph Housing Authority board. The Board of Selectmen met with the Randolph Housing Authority board to appoint the new board member.

The maintenance department has been reorganized and we have hired a new maintenance man. They have already turned over 25 vacant apartments. These apartments have been leased in accordance with the DHCD regulations.

We have also, successfully, joined forces with the Stoughton Housing Authority. Between the two agencies we have already formed an inter-governmental agreement in which the Randolph Housing Authority used maintenance men from the Stoughton Housing Authority to help ready up vacancies. Compensation was set at Stoughton's maintenance hourly rate of pay plus 40% for benefits.

To the best of our ability, for lack of adequate records, we have assessed the financial and physical condition of the Authority and will work hard to manage and maintain accurate and reliable records and conditions.

The Randolph Housing Authority believes in safe, sanitary and affordable housing for the community. The Authority will comply with all laws, rules, and regulations applicable to each program. We are dedicated to taking corrective action on all of the findings.

In closing I would again like to thank The Auditor of the Commonwealth for its professionalism, dedication and understanding during this audit.

9. OTHER QUESTIONABLE PRACTICES

During our audit, we learned that the former Executive Director owned property for which he obtained Federal Section-8 funding from the Avon Housing Authority (AHA). We were informed that the former Executive Director was planning to overcharge the AHA for rent. When questioned, a lower rent was accepted. It was noted that the Avon Housing Authority's Section-8 program is currently under federal investigation.

It was further noted that an examination of the former Executive Director's computer files found that this computer had been used for his private realty business and other unauthorized activities, which raises questions and concerns about the nature of these non Randolph Housing Authority activities.

Recommendation

The Randolph Housing Authority should adopt policies and procedures governing the use of Authority-owned computers.

As noted, the Authority is working on updating and implementing new policies where needed.

APPENDIX

DHCD Correspondence of February 16, 2005 Regarding Questionable and Inappropriate Practices

Commonwealth of Massachusetts
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT
Mitt Romney, Governor ◆ Kerry Healey, Lt. Governor ◆ Jane Wallis Gumble, Director

February 16, 2005

Ronald Lum, Chairman
Randolph Housing Authority
One DeCelle Drive
Randolph, MA 02368

Dear Mr. Lum:

The Department of Housing and Community Development (DHCD) conducted a site visit at Randolph Housing Authority (RHA) offices on October 12, 2004. This review revealed a number of serious concerns regarding the management of the RHA during the tenure of past Executive Director Joseph Daly and practices that continue as a result of actions taken during his leadership. DHCD froze the tenant selection system as a result of the review. In addition, the State Auditors began a review of the RHA in November of 2004 which is still ongoing. A description of the concerns from our review and the initial review by the State Auditors follows. The State Auditors are still identifying other concerns which will be forthcoming.

Conflicts of interest:

There are several immediate family relationships between members of the RHA Board of Commissioners and RHA employees. The maintenance supervisor (Stephen Daily)'s father-in-law (Jim Hurley) is an RHA Commissioner. The mother of another maintenance worker (Michael Walsh) is also an RHA Commissioner. Michael Walsh's wife currently works in the RHA office. The son-in-law of Commissioner Mary Wells, Billy Pasquantino, also does part-time custodial work for the authority.

The Massachusetts Conflict of Interest Law, c. 268A prohibits officials from participating in any matter in which an immediate family member has a financial interest. The Law also prohibits the use of an official position to obtain unwarranted privileges for a family member or acting in a manner that gives the appearance of favoritism. The DHCD Code of Conduct regulation at 760 CMR 4.04(2) states that members of the immediate family of an LHA Commissioner or of an administrative or supervisory employee cannot be eligible for employment in any capacity at the LHA without the prior written approval of the Department. It further states that an LHA employee cannot hold a position in which he or she directly or indirectly would supervise a member of his or her immediate family or be given any preferential treatment by the LHA because of his her relationship with a board member.

Randolph Housing Authority did not request advance written approval for the hiring of Stephen Daily or Michael Walsh. However, RHA did disclose this information on March 22, 2004 as part of their year end budget submission as required by DHCD. DHCD sent a response to RHA concerning their employment on May 12, 2004. The letter addressed certain restrictions to which Commissioners James Hurley and P. Gail Walsh must adhere during their tenure on the board. The letter states that Commissioners Hurley and

Walsh may not participate in any matters such as job performance evaluations or salary or benefit increases.

DHCD's letter of May 12, 2004 did not address the employment of Michael Walsh's wife, Mary Walsh, as an RHA administrative assistant. Mary Walsh was hired after the RHA reported employee relationships to DHCD. RHA again failed to follow the regulations at 760 CMR 4.04(2) which requires DHCD approval before hiring family members and states that such approval will only be given if "there has been compliance with all pertinent hiring standards and procedures, the individual is qualified for the position, and the appointment has not been influenced by any consideration other than merit." It appears that Mary Walsh is a permanent, full time RHA employee, and there is no record of RHA following proper hiring procedures or even advertising for the position.

Maintenance Supervisor Stephen Daily conducts additional maintenance work outside of his regular duties and is paid on a fee basis. Michael Walsh is paid an electrician's wage but is not currently licensed as such. These matters are addressed more fully in the maintenance section of this letter below.

Michael and Mary Walsh were found to have purchased office supplies on the housing authority account but their employment was not terminated. It is our understanding that Kathy Bruno, the current Executive Director, has now placed Michael and Mary Walsh on administrative leave when it was discovered that Michael Walsh did not have a valid driver's license and that both were falsifying time records.

These facts lead us to believe that there was favoritism by the Board of Commissioners toward immediate family members on staff which is a clear violation of the State Conflicts of Interest Law as well as the DHCD Code of Conduct regulation.

Tenant Selection:

The waiting list ledger has not been maintained (entries have not been made) since May 3, 2004. Twenty persons applied and their names appeared on the Master Ledger after May 3, 2004, but the information was never transferred to the waiting list ledger. A review of the Master Ledger, Vacancy Ledger, and Waiting List Ledger showed that entries were done in pencil. The ledgers were incomplete. All of these deficiencies constitute violations of the DHCD regulations at 760 CMR 5.16(2).

The following is a list of specific tenant selection problems:

- There were several instances where applicants who had applied after other applicants having the same priority and preference(s) were housed prior to applicants ahead of them on the waiting list. For example, one applicant was placed before at least three other applicants who had the same local and veteran preferences.

- Many applicants were given a local priority; however the information provided in the file was not enough to determine their place of residence at the time of application.

- A review of the tenants housed during Mr. Daly's tenure showed that applicants who received emergency status did not have backup documentation. Several applicant files claimed emergency status due to eviction but no documentary verification of eviction proceedings were included in the

file. Several applicants were housed prior to other applicants who were before them on the waiting list; however no emergency applications were in their files.

- Apparently several tenants moved to RHA housing from property owned by the Executive Director and his father. It seems that at least one tenant previously owned a home that was purchased by Mr. Daly's father. Information regarding the income from this sale was not reported in the applicant's file and the interest from the asset was not included when determining rent. Further investigation is being conducted regarding these potentially very serious abuses.

- There was no evidence that criminal record checks were made on a consistent basis as required by 760 CMR 5.12(3). It is believed there are several tenants with histories of criminal activity currently living in housing authority developments. In one case the tenant disclosed on his application that he had been convicted of a crime, and there was no evidence that the tenant showed that this criminal activity was outweighed by mitigating circumstances as required by 760 CMR 5.08. In this situation, RHA could be found legally responsible if it is sued for negligent security by a tenant victimized by another tenant who RHA knew or should have known might commit such a crime. Once a person with a criminal history has been housed, the RHA cannot remove him if he did not lie about it on his application. The tenant may only be evicted for a lease violation.

- There is evidence that there has been tampering of the time/date machine to stamp housing applications. Some applications were back stamped. The stamp shows one date and the application was dated a month later.

Finances:

- The former RHA Bookkeeper/Secretary has been charged with embezzlement of tenant rents. The former Fee Accountant discovered on May 25, 2004 that the tenant rent revenue for April was down by approximately $22,000. The Bookkeeper's last day was May 14, 2004. She was on vacation and did not return to work as scheduled. The Fee Accountant and then Executive Director were able to gain access to the Bookkeeper's locked desk drawer and found numerous checks and cash for the rents that were never deposited totaling approximately $18,000. The deposits made for tenant rents were deposited on May 14, 2004, her last day of work. This demonstrates that timely deposits were not done, as rents should have been deposited at the beginning of the month. This matter had been turned over the District Attorney's office for prosecution.

- While conducting a review of the comparisons of accounts, it was noted that "Other Income Revenue" decreased over $8,000 during 2003 and 2004. "Other Income Revenue" largely consists of income from coin operated laundry machines. RHA owns the washer and dryers at the housing sites and no explanation is available for this large discrepancy. In past RHA Board meeting minutes, it was noted that the Board voted to take $300 from the laundry proceeds to open a "Donation Bank Account." This account would increase as town businesses and private individuals made donations and would allow the Board to send flowers or have parties for the tenants. It is a violation of the DHCD regulation at 760 CMR 4.04(2)(j) to "request, solicit, receive, or accept any cash, gift or compensation in any amount from any LHA tenant or any person or other entity who or which does or may reasonably be expected to do business with the LHA." The minutes further recorded that after a tenant cookout, the Board voted to "tip" the staff

$300 from the "caterer's fund." The Donation Bank Account was not able to meet expenses for the cookout. It is unclear whether the overage of expenses came from the laundry proceeds. After a review of bank statements and cancelled checks, it was noted that transfers were made from the laundry account, which is a separate bank account, to the Donation Bank Account. As the laundry proceeds are in cash, the auditors were unable to determine if the money collected is accurately reported. The use of laundry proceeds for such purposes is not permitted by the DHCD Accounting Manual.

- A box of checks with the account name "Board of Director's Account" has been found in RHA offices. Upon further review, the auditors were able to determine that the "Board of Director's Account" and the "Donation Account" are one and the same.

- A part time worker, Billy Pasaquatinio, vacuums the hallways for the authority and is paid $160 per week out of the laundry account. Mr. Pasaquatinio is the son-in-law of Board Commissioner Mary Wells. This position is not included in RHA's annual budget submission to DHCD. Funds received from coin-operated laundry facilities must be recorded in the Other Operating Receipts line item. These funds are to be included as part of the income or revenue of an authority which will offset the total expenses of an authority resulting in determining whether an authority operates as a deficit or surplus. RHA is a surplus authority, therefore, these funds would become part of the RHA's operating reserve. Operating reserve monies cannot be spent on routine items. See DHCD Accounting Manual for State-Aided Housing Programs, Section 6. Payment to a part-time worker who vacuums hallways is a routine expense. This type of position must either be budgeted in Contract Costs or Maintenance Labor resulting in the cost being applied against the RHA's DHCD approvable non-utility expense level.

- The majority of RHA's investments are in CD accounts in local banks. The Board only agrees to place funds in local institutions even if there are better rates available elsewhere. There is currently one $125,000 CD account in a bank only insured to $100,000. The Department of Housing and Community Development in its Accounting Manual requires collateralization of all LHA deposits. A housing authority must require their depositories, with the exception of Massachusetts Municipal Depository Trust, to fully secure all deposits. RHA should move the amount over $100,000 to another account (can be an additional account in the same bank).

- 1099's for 2002 and 2003 for employees/vendors cannot be located.

- There are no checks and balances on purchasing. Section 8 of the DHCD Accounting Manual states that each housing authority is required to develop and implement a system of internal controls that protects the assets of the organization. A recent bill from a supply company shows that supplies were ordered by the RHA and delivered to the home of two RHA employees, Michael and Mary Walsh. The invoice totaled $182. The invoice payment had already been prepared by the Fee Accountant who did not make a note of the alternative delivery location. The current Executive Director recommended to the Board that Mr. and Mrs. Walsh's employment be terminated, however the Board decided not to terminate their employment at that time provided they repaid the Authority. In the future, the RHA must have procedures in place to avoid this situation. All purchases should be authorized by the Executive Director and purchases should be ordered and received by two different employees.

Maintenance:

- The maintenance department does not paint the vacant units during normal working hours. The Maintenance Supervisor, Stephen Daily, has been paid for this work outside of his regular maintenance duties at the authority and receives $495 (flat rate for one coat, additional charges for extra coats and ceilings) per unit depending on the number of coats of paint needed. The employee receives a 1099 tax statement at the end year for his work. Public procurement has never been conducted for the painting in violation of M.G.L.c. 30B. A worker cannot be both an outside contractor and an employee due to issues of overtime compensation, worker's compensation, and FICA payments. Secondly, this is a conflict of interest under Massachusetts General Laws Chapter 268A, §20 and the DHCD regulation at 760 CMR 4.04(2)(f) which prohibits an employee from having financial interest in a contract by the LHA. This law is intended to prevent employees from using their positions to obtain contractual benefits from the LHA and to avoid the public perception that LHA employees have the "inside track" on such opportunities. Thirdly, the LHA is not following the proper procurement process which is in violation of state public bid laws.

- There is evidence that Michael Walsh had been using RHA trucks for personal use, even taking the truck on vacation. According to the most recent budget guidelines (p. 22) and the DHCD regulation at 760 CMR 4.04(2)(i), LHA trucks cannot be used for personal use and need to be clearly marked as Randolph Housing Authority property. All state funded authority owned vehicles must be used solely for authority business. Vehicles must be garaged at the authority unless there is prior written approval from the Bureau of Housing Management. The current Executive Director has spoken to the employee and this practice has hopefully been discontinued.

- The vehicle allowance to maintenance workers using their own personal vehicles is $25 per week. The housing authority sites are .5 to 2 miles apart. The maintenance worker would have to travel 90 miles per week at the state permitted rate of 28 cents per mile. RHA did not keep records on employees' gas mileage or usage and therefore cannot justify the weekly rate. By paying a flat automobile rate to the maintenance staff, the housing authority did not meet internal control regulations outlined in Section 8 of the DHCD Accounting Manual. RHA now owns enough housing authority trucks so that personal vehicles are not used by maintenance staff for authority business.

- Michael Walsh is being paid as a Mechanic I/Electrician. It has been discovered that his electrician's license expired, and apparently has not been renewed.

Other:

- The Board minutes include specific tenant information including names of tenants. Minutes of Board meetings are public records and it is a violation of M.G.L. c. 66A and the DHCD regulation at 760 CMR 8.00 to disseminate tenant's names in public records. Commissioners must not violate the privacy of tenants or applicants by having access to their files and should not to refer to specific tenants in Board meetings.

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- Inventory records cannot be located in the RHA office. There are no longer any assets listed in the computer inventory folder. Inventory cards have only been located for refrigerators and stoves which are possibly not up-to-date. Regulations inventory policy can be found in DHCD's Budget Guidelines and Section 16 of the Accounting Manual. Housing authorities should account for and establish minimum dollar amounts for all purchased equipment with a life of at least one year.

- There are no complete records of yearly inspections in either the tenant files or the unit files. It was not clear whether RHA has conducted annual, move-in, or move-out inspections. Chapter 3 of the Property Maintenance Guide issued by DHCD states that yearly inspections of all housing authority properties are to be done.

In conclusion, we are providing this information to the Board of Commissioners to ensure that you are aware of the questionable and inappropriate management practices at the RHA and to allow you the opportunity to take appropriate actions. If you have any questions, please contact Christine DeVore, Assistant Director at 617 573-1242 or Melissa Vandawalker, Housing Management Specialist at 617 573-1238.

Sincerely,

Carole E. Collins
Director
Bureau of Housing Management