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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
RANDOLPH HOUSING AUTHORITY
OCTOBER 1, 2005 TO SEPTEMBER 2, 2008**

**OFFICIAL AUDIT
REPORT**

AUGUST 30, 2010

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted a special-scope audit of certain discrepancies and variances relating to tenant rental accounts at the Randolph Housing Authority that allegedly resulted in a shortage of at least \$7,250 during the period October 1, 2005 to September 2, 2008.

The objectives of our audit were to determine: (1) the deficiencies in the Authority's internal control system that allowed this shortage to occur, (2) the manner in which the shortage occurred, (3) the effect of the breach in the Authority's internal control environment, (4) the amount of the alleged shortage, (5) corrective action taken by management, and (6) the effectiveness of the corrective actions taken and the ways in which further improvements could be made to preclude similar occurrences in the future.

Based on our review, we have concluded that the Authority's inadequate financial/management controls resulted in at least \$7,250 being stolen by a former Authority employee, who was charged with larceny by a single scheme by the Norfolk County District Attorney.

AUDIT RESULTS

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INADEQUATE CONTROLS OVER TENANT ACCOUNTS RECEIVABLES AND RELATED COLLECTION PROCEDURES RESULTED IN AT LEAST \$7,250 IN LOST TENANT RENTAL REVENUE

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In a prior report No. 2005-0763-3A of the Authority, dated February 6, 2006, we disclosed that a breakdown in the Authority's internal control system allowed a former Authority bookkeeper to embezzle thousands of dollars in revenue. Specifically, an analysis and comparison of tenant rental rolls, accounts receivable, and deposit activity indicated a shortage of \$5,459 in tenant rental revenue. This matter was turned over to the Norfolk County District Attorney's Office, and at a February 2005 District Court appearance the former bookkeeper was charged with embezzlement. Our report contained recommendations regarding safeguards and controls that needed to be implemented by the Authority's Board of Directors, outside fee accountant, and management, as well as the Department of Housing and Community Development, to correct the cause of the internal control breakdown and provide proper governance, oversight, and financial monitoring to preclude future similar occurrences.

During our current review, we found that the Authority hired a new Leasing and Occupancy Coordinator, who was employed by the Authority from October 1, 2005 to September 2, 2008, when the employee took leave and never returned. The Authority's management subsequently discovered that a variety of financial discrepancies and variances had taken place that resulted in the loss of at least \$7,250 in revenue and charges of larceny being filed by the Norfolk County District Attorney against the former employee. However, the actual amount misappropriated could be larger due to the fact that controls over rental payments (particularly cash payments) were lacking and two receipt books for the period were missing. In addition, our audit revealed that Authority financial records, both electronic and paper, had been altered, deleted, and falsified.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a special-scope audit of certain activities of the Randolph Housing Authority for the period October 1, 2005 to September 2, 2008. The purpose of our audit was to review certain discrepancies and variances to tenant rental accounts allegedly resulting in a shortage of at least \$7,250 during the audit period. The Authority manages 248 units of state-funding housing and has three full-time office staff, including its Executive Director.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

The objectives of our audit were to determine:

- The deficiencies in the internal control system that allowed this shortage to occur,
- The manner in which the shortage occurred,
- The effect of the breach in the Authority's internal control environment,
- The amount of the alleged shortage,
- Corrective action taken by management, and
- The effectiveness of the corrective actions taken and the ways in which further improvements could be made to preclude similar occurrences in the future.

To achieve our objectives, we:

- Compared individual tenant ledger account records to rent receipt books and daily cash receipt reports and noted any discrepancies,
- Compared original cash receipt reports (records created at the time of original entry) to subsequent cash receipt reports (printed for comparison purposes) and noted any discrepancies,
- Reviewed documentation obtained by Authority staff relating to cash-paying tenants whose accounts appeared questionable and compared them to Authority financial records, and

- Interviewed Authority staff.

Based on our review, we determined that during the period October 1, 2005 to September 2, 2008 a variety of discrepancies and variances had taken place that resulted in the loss of at least \$7,250 in Authority revenue. However, the amount misappropriated could be larger due to the fact that controls over rental payments (particularly cash payments) were lacking and two receipt books for the period were missing. Moreover, we found that Authority financial records, both electronic and paper, had been altered, deleted, and falsified. We have concluded that the Authority's lack of adequate financial and management controls allowed a theft of funds by a former employee, who was charged with larceny by a single scheme by the Norfolk County District Attorney.

AUDIT RESULTS

INADEQUATE CONTROLS OVER TENANT ACCOUNTS RECEIVABLES AND RELATED COLLECTION PROCEDURES RESULTED IN AT LEAST \$7,250 IN LOST TENANT RENTAL REVENUE

In a prior report No. 2005-0763-3A of the Randolph Housing Authority, dated February 6, 2006, we disclosed that a breakdown in the Authority's internal control system allowed a former Authority bookkeeper to embezzle thousands of dollars in revenue. Specifically, an analysis and comparison of tenant rental rolls, accounts receivable, and deposit activity indicated a shortage of \$5,459 in tenant rental revenue. This matter was turned over to the Norfolk County District Attorney's Office, and at a February 2005 District Court appearance the former bookkeeper was charged with embezzlement. Our report contained recommendations regarding safeguards and controls that needed to be implemented by the Authority's Board of Directors, outside fee accountant, and management, as well as the Department of Housing and Community Development, to correct the cause of the internal control breakdown and provide proper governance, oversight, and financial monitoring to preclude future similar occurrences.

During our current review, we found that the Authority hired a new Leasing and Occupancy Coordinator, who was employed by the Authority from October 1, 2005 to September 2, 2008, when the employee took leave and never returned. The Authority's management subsequently discovered that a variety of financial discrepancies and variances had taken place that resulted in the loss of at least \$7,250 in revenue and charges of larceny being filed by the Norfolk County District Attorney against the former employee. However, the actual amount misappropriated could be larger due to the fact that controls over rental payments (particularly cash payments) were lacking and two receipt books for the period were missing. In addition, our audit revealed that Authority financial records, both electronic and paper, had been altered, deleted, and falsified.

According to Authority's Executive Director, the computer software that the Authority uses is designed specifically for housing authorities. In order to log in, individuals must have an agency identification number, a user name, and an individual password. No employee has access to another employee's password, and the system automatically records all employee logins/logouts.

We found that the altering, deletion, and creation of false records, both electronic and paper, led to at least \$7,250 in cash rental receipts being misappropriated from the Authority. We

confirmed, as did Authority management and staff, that: (1) discrepancies existed between individual tenant ledger account records, rent receipt books, and daily cash receipt reports; (2) original cash receipt reports (records created at the time of original entry) demonstrated discrepancies with subsequent cash receipt reports (printed for comparison purposes); (3) the rental receipts of certain tenants who routinely paid in cash and whose accounts appeared questionable did not match Authority financial records. Many cash-paying tenants were not given credit for their cash rent payments, but their accounts were subsequently credited with check payments from other vacated tenants who paid by check. This was partially concealed or covered up by alteration of the daily cash reports, because prior-month activity was not closed out, which allowed retroactive alterations to be made. This allowed vacated tenant balances to be increased without being easily detected.

We determined that payment by the same check and number was credited to different tenants on the subsequent daily cash receipt reports as compared to the original daily cash receipt report. Sometimes the check payment was split between more than one tenant on the subsequent cash receipt report. Authority management requested a deletion report for cash receipts from the computer software vendor, who found that the former employee had deleted 62 cash receipts during the period of October 3, 2005 to September 2, 2008. Once a cash receipt is deleted it is also deleted from the individual tenant account record and the daily cash receipts report.

Specifically, we found:

- Six cash transactions involving five tenants' rental payments totaling \$989 were never recorded to the tenants' accounts.
- Ten adjustments totaling \$1,848 involving eight tenants' accounts lacked documentation to explain or justify the entry.
- Three adjustments totaling \$1,240 involving two tenant repayment accounts lacked documentation to explain or justify the entry. A tenant repayment account is primarily established when it is determined that a tenant's original rent determination was understated due to subsequent determination of income or assets that would increase their rental amount, at which time the tenant would have to make payments to both of the tenants' accounts.
- Ten cash receipt transactions totaling \$2,914 and involving eight tenants were deleted.
- Two cash receipt payments totaling \$259 and involving two tenants were altered to a lower amount.

- From the two altered and 10 deleted rental payments referenced above, a total of 21 new cash receipts transitions were created.

There was a breakdown in internal administration controls because there was inadequate segregation of duties that allowed one individual to:

- Advise the Executive Director when regulatory changes require policy or procedural changes in Authority operations
- Receive, review, and analyze housing applications
- Maintain waiting lists
- Reply to inquiries concerning tenant selections
- Screen all applicants
- Verify all application data
- Determine eligibility/ineligibility of prospective program participants
- Determine any preference or priority status to which an applicant may be entitled
- Notify all applicants their status
- Select tenants and establish rents in accordance with applicable regulations.
- Execute leases
- Conduct required recertification
- Maintain tenant files
- Show vacant apartments to applicants
- Prepare and maintain all required government reports relating to leasing and occupancy
- Receive rental payments from tenants
- Post to proper accounts
- Prepare deposits and bring deposits to bank
- Inform the Executive Director of past-due rent accounts and process the 14-day notices to the constable

Conclusion and Recommendation

The reoccurrence of these conditions and cash shortages resulted, despite the detailed recommendations in our report No. 2005-0763-3A, due to: (1) the Authority's board and management not having adequate working knowledge and understanding of the accounting system, (2) inadequate training, (3) a lack of internal controls specific to a housing authority of the

Authority's size, and (4) an inadequate system of checks and balances through the proper segregation of employee duties so that one person is not in control of so many aspects of Authority transactions.

Generic, "one size fits all" type training is not useful to the small entity environment represented by the Authority. Proper governance requires the Authority's board to be more involved in ensuring that management and staff are able to adequately safeguard Authority finances. Moreover, the board's oversight responsibility should require that the Authority's fee accountant, in performing his monthly accounting responsibilities, to the Authority, determine and advise the Authority on the adequacy of controls and segregation of duties to ensure that transactions are carried out and recorded properly and preclude what occurred here. This principle holds true for the fee accountant's annual audit, which should encompass an adequate test of the Authority's internal controls.

Likewise, the Department of Housing and Community Development and the Massachusetts Chapter of the National Association of Housing Redevelopment Officials should develop and include more specific training for the implementation of a strong control environment that includes sufficient segregation of duties for smaller housing authorities with limited staffing.

Auditee's Response

At the conclusion of our audit, we discussed the results of our review with the Authority's Executive Director, who concurred with our observations and indicated that both management and the Board of Directors would require the fee accountant, as part of his monthly duties, to review, indentify, and recommend new procedures to ensure that there are adequate controls, checks and balances, and segregation of duties in place, and that Authority staff and management implement the new procedures to preclude the reoccurrence of similar situations in the future.