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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
STOCKBRIDGE HOUSING AUTHORITY
OCTOBER 1, 2004 TO MARCH 31, 2006**

**OFFICIAL AUDIT
REPORT
AUGUST 29, 2007**

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The Stockbridge Housing Authority was established in 1978 pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided elderly housing project comprised of 53 Elderly (Chapter 667) and eight Special Needs (Chapter 689) housing units located in Stockbridge. In accordance with Chapter 11, Section 12, of the General Laws, we conducted an audit of certain activities of the Authority for the period October 1, 2004 to March 31, 2006. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 18-month period ended March 31, 2006, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. LOST OPPORTUNITY TO EARN POTENTIAL INTEREST INCOME

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The Authority maintains separate interest-bearing checking accounts for its Chapter 667 (Elderly) and Chapter 689 (Special Needs) state-aided programs. During the audit period October 1, 2004 through March 31, 2006, the Authority maintained average daily balances within these accounts totaling \$26,165 and \$13,798, respectively. The interest rate on these accounts was minimal, fluctuating between .05% and .10%, which resulted in the Authority earning interest income of only \$39.35 during the audit period. The Department of Housing and Community Development (DHCD) Accounting Manual for State-Aided Housing Programs requires local housing authorities to invest all funds not needed at the highest possible rate. By not depositing such funds in higher-yielding investment vehicles such as the Massachusetts Municipal Depository Trust (MMDT), which as of November 30, 2006 was offering an interest rate of 5.3%, the Authority lost the opportunity to earn potential interest income. In its response, the Authority indicated that, after researching several options, it opened a Section 8 reserve account with \$50,000. Moreover, the Authority stated that the account had earned \$799.80 in interest to date. However, the Authority's response provided no indication that it had taken similar action with its Chapter 667 and Chapter 689 funds.

2. CONTROLS OVER PROPERTY AND EQUIPMENT NEED IMPROVEMENT

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Our review identified that the Authority needs to improve controls over its property and equipment. Specifically, the Authority's inventory control records are fragmented and partially incomplete, which hinders outside agencies such as the Office of the State Auditor from locating, inspecting, and accounting for all Authority property. In addition, the Authority did not conduct an annual inventory of property and equipment as required by DHCD's program guidelines. Finally, the Authority did not include two items (a pickup truck and a sander attachment) on its list of fixed assets, while a separate

item (tractor attachment) that was posted to the Authority's list of fixed assets could not be located. Without a strong system of internal controls over its inventory, there is inadequate assurance that the Authority's property and equipment is adequately safeguarded against possible loss, theft, or misuse. In its response, the Authority identified several steps that it had taken to improve controls over property and equipment. However, the Authority still has not conducted a fixed asset inventory as required by DHCD.

3. PAYMENT IN LIEU OF TAXES (PILOT) NOT REMITTED IN A TIMELY MANNER **6**

Our audit identified that the Authority did not remit its Payment in Lieu of Taxes (PILOT) to the Town of Stockbridge in fiscal year 2005. According to DHCD's Accounting Manual, local housing authorities that manage Chapter 689 projects may provide a PILOT payment for municipal services it receives from the host community. For fiscal year 2005, the Authority owed the Town of Stockbridge \$826.08. After being apprised of the matter, the Authority forwarded \$826.08 to the Town of Stockbridge. According to the Authority's private fee accountant, the non-payment was an oversight. In its response, the Authority also indicated that the non-payment was an oversight, and that the oversight was corrected immediately.

4. LONG-TERM VACANCIES IN CONGREGATE HOUSING PROGRAM **8**

Our review identified that the Authority has been experiencing long-term vacancies at its congregate housing program. Of the Authority's four congregate units, one unit has been vacant since April 3, 2003, whereas another unit has been vacant since August 31, 2002. Such prolonged vacancies are contrary to DHCD's Property Maintenance Guide, effective January 1, 1991, which requires local housing authorities to have housing units reoccupied within 21 working days after the previous tenant has vacated. Consequently, the Authority may have lost potential income from these two congregate units totaling \$26,005 through October 31, 2006. In its response, the Authority indicated that it received DHCD's approval to use \$1,550 of its own funds to convert a portion of the congregate unit into a standard 667 two-bedroom unit. Moreover, the Authority indicated that the converted unit had been leased on May 15, 2007. In addition, the Authority stated that it recently received DHCD funding to renovate the remaining congregate space to a one-bedroom wheelchair-accessible apartment.

INTRODUCTION

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 Stockbridge Housing Authority for the period October 1, 2004 to March 31, 2006. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Our audit 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.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent re-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Site inspection procedures and records to verify compliance with DHCD inspection requirements and determine whether selected housing units were in safe and sanitary condition in accordance with Chapter II of the State Sanitary Code.
- 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 regulations.
- 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 that 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 substantiate that the Authority's reserves fell within DHCD provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Administrative procedures to ensure compliance with Massachusetts General Laws pertaining to the submission of an Annual Report and adherence to the Open Meeting Law.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 18-month period ended March 31, 2006, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. LOST OPPORTUNITY TO EARN POTENTIAL INTEREST INCOME

The Stockbridge Housing Authority maintains separate interest-bearing checking accounts for its Chapter 667 (Elderly) and Chapter 689 (Special Needs) state-aided programs. During the audit period October 1, 2004 through March 31, 2006, the Authority maintained average daily balances within these accounts totaling \$26,165 and \$13,798, respectively. However, as detailed in the table below, the interest rate on these accounts was minimal, fluctuating between .05% and .10%, which resulted in the Authority earning interest income of only \$39.35 during the audit period.

<u>State-Aided Account</u>	<u>Average Daily Balance</u>	<u>Interest Rates</u>	<u>Interest Earned</u>
Chapter 667 (Elderly)	\$26,165	.10% / .05%	\$24.06
Chapter 689 (Special Needs)	<u>13,798</u>	.10% / .05%	<u>15.29</u>
Total	<u>\$39,963</u>		<u>\$39.35</u>

The Department of Housing and Community Development (DHCD) Accounting Manual For State-Aided Housing Programs states that a strong system of internal controls includes proper administrative controls to safeguard the assets of a local housing authority (LHA). Such administrative controls would include the adoption of policies to control the proper investment of funds. In this regard, DHCD's Accounting Manual states, in part:

The primary objective of an investment policy is to invest at the highest rate obtainable all funds in excess of those necessary for the daily operation of the LHA.... Monies on deposit in the General Fund in excess of those monies necessary for the daily operation of the Housing Authority for a period of 90 days should be considered available for investment. These funds should be invested when the expected yield exceeds amounts received in the general fund.

In compliance with policies set forth by its Board of Commissioners, the Authority maintains its two checking accounts at a local financial institution. However, our review of other investment accounts revealed that the Authority could have earned a greater rate of return during the audit period by depositing its excess operating funds into other investment accounts. For example, as of December 1, 2006, the Authority's current banking institution was providing 5% interest on certificates of deposit. In addition, the Authority could have invested a portion of its operating funds with the Massachusetts Municipal Depository Trust (MMDT). As of November 30, 2006, the MMDT was offering a 5.3% interest rate on deposits.

The Executive Director stated that she is working with the local bank involved in an effort to obtain a higher interest rate on the Authority's checking accounts. In addition, the Executive Director indicated that she would evaluate the Authority's cash flow position to determine whether additional funds could be moved into the Authority's existing MMDT account. Finally, the Executive Director stated that over the past two years rising costs of utilities has required the Authority to maintain a higher balance in its checking account, thus preventing the Authority from transferring funds from its general operating account into its MMDT account.

Recommendation

The Authority's Board of Commissioners should evaluate the Authority's 90-day cash flow needs and invest any of its excess funds into a safe and effective investment vehicle, such as a certificate of deposit or its MMDT account. Such action could increase the amount of interest earned and provide additional working capital for the Authority.

Auditee's Response

The Authority's Executive Director responded as follows:

It is true that, prior to the audit, I had not made any changes in the investment of our accounts upon taking on the Executive Director's role in October 2004. I knew, and our fee accountant...had noted to me that we needed to be making more money from our operating accounts, that Lee Bank had continued to decrease their interest rates on these accounts. Due to the overwhelming amount of work in my position...during that period, accomplishing this task took longer than I would have liked. I did not want to change banks since we have a very good working relationship otherwise with Lee Bank, and it is far more convenient for us since it is the only bank in Stockbridge with a drive-thru, a huge time-saver during our busy tourist season. After researching several options and negotiation with Lee Bank..., on November 8, 2006, I opened a Section 8 Reserves Account with \$50,000 at Lee Bank. It has earned \$799.80 interest to date.

Auditor's Reply

While the Authority has improved interest earnings on its Section 8 (federal program) funds, the Authority's actions have not directly addressed our concern with excess funds within its Chapter 667 and Chapter 689 state-aided programs. Consequently, we continue to recommend that the Authority evaluate its 90-day cash flow needs and invest any of its excess funds into a safe and effective investment vehicle.

2. CONTROLS OVER PROPERTY AND EQUIPMENT NEED IMPROVEMENT

Our audit identified that the Authority needs to improve controls over property and equipment. Specifically, the Authority's inventory control records are fragmented and partially incomplete, which hinders outside agencies such as the Office of the State Auditor from locating, inspecting, and accounting for the Authority's property.

DHCD's Accounting Manual for State-Aided Housing Programs provides local housing authorities with guidance to ensure that furniture and equipment purchased with state funds are properly accounted for and protected against misuse or loss. Specifically, Section 15, Part D, of the Accounting Manual requires that Authorities account and control their non-expendable furniture and equipment via a computer database file or a manual card system, as follows:

All non-expendable equipment shall be detailed and recorded in a computer data base program/file or in a - "Furniture and Equipment Record Card" system. The Department strongly urges the use of an automated system whether the Authority maintains a "manual" card system or not.

Although the Authority used both index cards and computer software to record and track its inventory, it had not reconciled these two systems or merged them into a single consolidated inventory control document. Consequently, locating certain inventory items during the audit process became burdensome and time consuming.

In addition, DHCD's Accounting Manual requires that all Authorities place an inventory control tag on all non-expendable pieces of furniture and equipment, and conduct an annual physical inventory of these items. However, based upon the Authority's records, the Authority had not conducted a complete physical inventory since July 2004. In addition, a tractor attachment posted on the Authority's fixed asset list could not be located, and the Authority's Ford F250 pickup truck and sander attachment, which cost \$25,964 and \$2,348, respectively, were neither tagged nor listed on the Authority's inventory control records.

Finally, DHCD Budget Guidelines require that each Authority permanently mark all state-funded Authority-owned vehicles with the Authority's name. However, the Authority has not marked its Ford F250 pickup truck, which it purchased with state funds during fiscal year 2002.

Without a strong system of internal controls over its inventory, there is inadequate assurance that the Authority's property and equipment is adequately safeguarded against possible loss, theft, or misuse.

Recommendation

The Authority should:

- Conduct an annual physical inventory of all property and equipment and present the findings in a written report to the Board of Commissioners.
- Reconcile and merge all inventory records into a single report that details for each asset: (a) description, (b) acquisition and, if applicable, disposal date, (c) actual value, or if no receipts exist, the fair market price, (d) location, and (e) control tag number.
- Clearly display the Authority's name on Authority-owned vehicles.

Auditee's Response

The Authority's Executive Director responded, in part, as follows:

It is true that I had not conducted a complete inventory since assuming my role as Executive Director due to the reasons stated above [See Response to Audit Result 1.]; however, every refrigerator and stove was checked at annual inspection in July 2005. They were all still there at the 2006 inspection! Those that were replaced had been updated in both the computer file and card file. The auditor noted that the pickup truck and sander (attached to the truck)... were not tagged, nor had been added to the inventory list or cards. That has since been corrected. The "fragmented" nature of our inventory system is due to the policy that has been in place since 1999, that of cards and a computer file. On the agenda for our August 2007 board meeting is addressing and updating our Inventory Policy. Finally, signs have been ordered for our authority's truck.

Auditor's Reply

We commend the Authority's efforts to improve internal controls over its fixed assets, and recognize that the Authority has inventoried its stoves and refrigerators during the annual unit inspection process. However, the Authority maintains fixed assets other than just stoves and refrigerators. Therefore, to ensure security over all its fixed assets, we continue to recommend that the Authority conduct an annual physical inventory as required by DHCD.

3. PAYMENT IN LIEU OF TAXES (PILOT) NOT REMITTED IN A TIMELY MANNER

Our audit identified that the Authority did not remit its Payment in Lieu of Taxes (PILOT) to the Town of Stockbridge in fiscal year 2005. According to DHCD's Accounting Manual, local

housing authorities that manage Chapter 689 projects may provide a PILOT payment for municipal services received from the host community. For fiscal year 2005, the Authority owed the Town of Stockbridge \$826.08. After being apprised of the matter, the Authority forwarded \$826.08 to the Town of Stockbridge. According to the Authority's private fee accountant, the non-payment was an oversight.

In addition, DHCD's Accounting Manual requires local housing authorities to make PILOT payments in accordance with provisions of a "PILOT Agreement" with the local taxing body. Moreover, the Accounting Manual emphasizes that authorities should determine that all public services provided for in the PILOT Agreement are being received at no additional expense. If there are any such expenditures, the PILOT should be reduced to reflect these payments. However, the Authority was unable to locate its PILOT Agreement with the Town of Stockbridge. Consequently, the Authority could not ensure that the specific municipal services required under the PILOT Agreement were provided or that its \$826.08 payment was appropriate.

During the audit, the Executive Director indicated that she would attempt to locate the PILOT Agreement or develop a replacement.

Recommendation

The Authority should ensure that future PILOT payments are made in a timely manner to the Town of Stockbridge. Also, the Authority should obtain a copy of its PILOT Agreement from the Town of Stockbridge and verify that the agreed-upon services are provided.

Auditee's Response

The Authority's Executive Director provided the following response:

This was an oversight and was corrected immediately. Neither the Town Manager, nor I could find such a PILOT Agreement between the Town of Stockbridge and SHA. On January 27, 2007, the SHA Board of Commissioners approved the PILOT Agreement I presented to them, signed and sealed by the Town Board of Selectmen Chairman. The agreement was modeled after Great Barrington Housing Authority's agreement.

4. LONG-TERM VACANCIES IN CONGREGATE HOUSING PROGRAM

Our review identified that the Authority has been experiencing long-term vacancies at its congregate housing program. Of the Authority's four congregate units, one unit has been vacant since April 3, 2003, whereas another unit has been vacant since August 31, 2002. Such prolonged vacancies are contrary to DHCD's Property Maintenance Guide, effective January 1, 1991, which requires local housing authorities to have housing units reoccupied within 21 working days after the previous tenant has vacated. Consequently, as detailed in the chart below, the Authority may have lost the opportunity to earn as much as \$26,005 in potential income from these two congregate units through October 31, 2006.

<u>Unit No.</u>	<u>Date Vacated</u>	<u>Days Vacant</u>	<u>Avg. Daily Rent</u>	<u>Potential Loss</u>
G-13	April 3, 2003	1,230	\$9.74	\$11,980
G-12	August 31, 2002	<u>1,440</u>	\$9.74	<u>14,025</u>
TOTAL		<u>2,670</u>		<u>\$26,005</u>

Under the congregate program, tenants have private bedrooms but share bathroom, kitchen, dining room, and living room areas, thus relinquishing some of their privacy. According to the Executive Director, marketing congregate housing units is difficult because most people are unwilling to live with strangers. Moreover, the Executive Director stated that although the Town of Stockbridge is a very desirable community to live in and the Authority has a waiting list of 23 applicants, the Authority has been unable to find anyone to move into Units G-13 and G-12. It should be noted that during the audit the Authority's remaining two congregate units were vacated.

Finally, the Executive Director stated that the Board of Commissioners has sought approval from DHCD to reconfigure the congregate units to become typical Chapter 667 residences for individuals and couples. Moreover, the Executive Director explained that the Authority is presently consulting with DHCD design and construction managers on this issue, as well as seeking funding for the project from various state and non-state sources.

Recommendation

The Authority should continue working with DHCD and all other interested parties in order to obtain the necessary state approval for the reconfiguration project, as well as the funding necessary to bring about the needed changes to its congregate units.

Auditee's Response

The Authority's Executive Director and Board Chairman responded, in part, as follows:

The lack of applicants for the congregate apartment had been the topic of discussion and concern for many years among the SHA Board, the former Executive Director, and me. In November of 2006, the unit became vacant. After seeking funds from both Community Development Block Grant (CDBG) funds and Housing Development Support Program (HDSP) funds, and finding them both to be extremely problematic to access and far too costly in time and resources to this tiny agency, I received approval from both our Board and DHCD to use our own funds to convert the common living space and two of the bedrooms with private baths to a standard 667 two-bedroom unit. I leased it up to two elderly sisters—emergency applicants—on May 15, 2007. The cost of the renovation—to put in a wall and install three new smoke alarms—was \$1,550.26.

...I will also add that we have just received word that DHCD has agreed to fund the renovation of the one-bedroom wheelchair-accessible apartment in the former congregate unit. That will complete the renovation of that unit...

I find (the OSA's) estimate of income lost on the congregate to be over-inflated. Yes, the average rent for our 667 housing may be \$9.74 per day, but our tenants in congregate housing tend to be of extremely low income. The rent received on the space is currently \$419. The rent received from the prior two tenants was \$276, total. The income on the space is higher now than it has been in over four years....

Auditor's Reply

Our calculation of "average daily rent" was based upon the Authority's financial data and took into account all tenant income, including the Authority's "extremely" low-income tenants. As indicated by the Authority's response, rents for the same unit can fluctuate significantly depending upon a tenant's income and allowable deductions. Thus, utilizing an "average daily rent" is the best means of calculating potential lost rental income. In addition, we understand that leasing congregate units is a difficult assignment and we commend the Authority's diligence in working to obtain the funding necessary to update and re-lease the units.