



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

Making government work better

Official Audit Report – Issued September 24, 2014

Taunton Housing Authority

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





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Alan Pelletier, Chair
Taunton Housing Authority
30 Olney Street
Taunton, MA 02780

Dear Chairman Pelletier:

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue horizontal line.

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Taunton Housing Authority for the period January 1, 2012 through March 31, 2013.

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

Based on our audit, we have concluded that for the period January 1, 2012 through March 31, 2013, except for the issues addressed in the Detailed Audit Results and Findings section of this report, the Authority maintained adequate internal controls in the areas tested and conducted its procurements in an efficient manner in compliance with DHCD guidelines and applicable laws, rules, and regulations.

Summary of Findings

- During fiscal year 2013, the City of Taunton incorrectly calculated Payment in Lieu of Taxes¹ (PILOT) for 15 of the Authority's family scattered-site units and did not bill the Authority for other units that were eligible for PILOT payments. As a result, the City sent inaccurate bills to the Authority, which therefore overpaid its 2013 PILOT.

¹ The PILOT program enables tax-exempt entities to submit a payment for municipal services that are normally funded by taxes.

- During our prior audit period, the Authority was using a computerized waiting list and master ledger for housing applicants rather than the handwritten ledgers required by DHCD regulations. During our current audit, we found that the Authority had requested and received approval from DHCD to use the computerized system in place of the handwritten ledgers, which resolves this issue.

Recommendation

The Authority should work with the City of Taunton to sign a PILOT agreement to ensure that PILOT payments are accurately calculated for all eligible properties and that the proper amounts are paid.

OVERVIEW OF AUDITED AGENCY

Background

The Taunton Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority's administrative offices are located at 30 Olney Street in Taunton, Massachusetts. The Authority manages 164 units for low-income families, 44 units for elderly tenants, and 8 units for special-needs tenants. The Authority also administers 37 vouchers under the Massachusetts Rental Voucher Program.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Taunton Housing Authority for the period January 1, 2012 through March 31, 2013.

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

To accomplish our audit objectives, we gained an understanding of, and tested, the relevant internal controls for financial operations; eligibility determinations, redeterminations, and tenant selection; contract procurement; property maintenance; contracting and leasing; cost allocation; financial reporting; and data collection. Any deficiencies in internal controls are identified in the Detailed Audit Results and Findings section of this report. Further, we conducted audit testing in the following areas:

- We reviewed the Authority's policies and procedures for the administration of employee salaries and fringe benefits, verifying compliance with established requirements through examination of a sample of 10 of 74 payroll disbursements.
- We reviewed 10 of 31 tenant selections to verify that tenants were selected in accordance with DHCD regulations.
- We reviewed 10 of 54 travel expenditures and verified compliance with established policies.

- We reviewed 24 of 2,000 general administrative expenditures for appropriateness and compliance with established policy.
- We tested tenant accounts-receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts-receivable balances were written off properly.
- We reviewed cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- We tested DHCD grants and all Authority payments related to modernization and development contractors to determine that amounts paid were in accordance with applicable procurement requirements.
- We examined the vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- We tested 19 of 208 annual rent determinations to verify that rents were calculated properly and in accordance with DHCD guidelines.
- We reviewed site-inspection procedures and records to verify compliance with DHCD inspection requirements and determine whether the 11 out of 216 units we selected for inspection were in safe and sanitary condition.
- We tested procedures for property and equipment and determined the adequacy of the Authority's controls to protect, and account for, its assets in accordance with DHCD regulations.
- We tested the controls for operating subsidies and verified that the amount that the Authority earned was consistent with the amount it received from DHCD.
- We examined contract-procurement records to verify compliance with applicable laws and DHCD requirements for awarding contracts.
- We reviewed the Authority's cost-allocation methodology and verified the DHCD-approved operating budget for fiscal year 2012 in comparison with actual expenditures. We also reviewed line-item and total amounts to ensure that they were within budgetary limits.
- We reviewed the adequacy of procedures in effect to collect data and ensure that required reports are complete, accurate, and submitted to DHCD in a timely manner.
- We determined whether the Authority had conducted any transactions with related associations, corporations, or other private entities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

We did not rely on computer-processed data for our audit. We relied on hardcopy source documents, interviews, and other non-computer-processed data as supporting documentation on which we based our conclusions. Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population. We also examined judgmentally selected samples of transactions that we believed were representative of the populations being tested; however, the results of this testing were not significant to our audit findings.

Based on our audit, we have concluded that for the period January 1, 2012 through March 31, 2013, the Authority maintained adequate controls over its financial operations; its administrative expenditures were appropriate and reasonable; its eligibility determinations, redeterminations, and tenant selection complied with DHCD regulations; its procurement of goods and services complied with the requirements of the General Laws; and its site inspection procedures, contracting and leasing procedures, cost-allocation plan, financial reporting, data collection, and inventory controls over supplies and equipment complied with DHCD policies and procedures. However, the Authority needs to improve its monitoring of Payments in Lieu of Taxes to the City of Taunton to ensure that the amounts charged comply with DHCD policies.

Through inquiry and examination of source documents during the performance of the foregoing audit procedures, no instances of transactions with related parties came to our attention.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

1. The Taunton Housing Authority overpaid the City of Taunton for fiscal year 2013 Payment in Lieu of Taxes on its family scattered-site housing properties.

During fiscal year 2013, the City of Taunton incorrectly calculated Payment in Lieu of Taxes² (PILOT) for 15 of the Authority's family scattered-site units and did not bill the Authority for other units that were eligible for PILOT payments. As a result, the City sent inaccurate bills to the Authority, which therefore overpaid its 2013 PILOT.

Authoritative Guidance

Chapter 121B, Section 16, of the Massachusetts General Laws exempts local authorities from paying property taxes, except for family housing units and properties for special-needs residents, for which the Authority may make PILOT payments. Section 15(g) of the Department of Housing and Community Development (DHCD) Accounting Manual for State-Aided Housing Programs limits PILOT payments for Chapter 705 property to \$100 plus one-half the full residential tax rate, multiplied by the number of bedrooms (see Appendix).

Reason for Overcharge

Because of human error, the City of Taunton calculated these PILOT payments at the full residential rate on 15 of the Authority's 24 family scattered-site units rather than using the calculation method required by DHCD. Also, the Authority had not signed a PILOT agreement with the City for the payments it would make on these properties, which would have formally established the amount of these payments.

Recommendation

The Authority should work with the City of Taunton to sign a PILOT agreement to ensure that PILOT payments are accurately calculated for all eligible properties and that the proper amounts are paid.

Auditee's Response

The [Authority] met with the City of Taunton and agreed that all state properties eligible to pay PILOT would be billed correctly by the City and paid by the [Authority]. The City did provide an abatement . . . to the [Authority] for 2013 Taxes and billed the corrected PILOT amount . . . for

² The PILOT program enables tax-exempt entities to submit a payment for municipal services that are normally funded by taxes.

all state properties. . . . We feel confident going forward that all state properties will be billed according to the PILOT calculation and the [Authority] will pay only the PILOT amounts on all eligible state properties.

2. Our prior audit finding of noncompliance with DHCD regulations on handwritten ledgers was resolved.

During our prior audit period, the Authority was using a computerized waiting list and master ledger³ system rather than the handwritten ledgers required by DHCD regulations. During our current audit, we found that the Authority had requested and received approval from DHCD to use the computerized system in place of the handwritten ledgers, which resolves this issue.

³ The permanent ongoing record of all applications for housing, including preliminary applications, standard applications, emergency applications, and transfer applications.

APPENDIX

COMPARISON BETWEEN PROPERTY TAX ASSESSMENTS COLLECTED BY THE CITY OF TAUNTON AND PAYMENT IN LIEU OF TAXES (PILOT) FOR FISCAL YEAR 2013

Location		Property Tax			PILOT				
Address	Number of Units	Valuation	Rate per \$1,000	Assessment	Number of Bedrooms	1/2 Tax Rate	Addition	Correct PILOT	Variance
9 Martel Avenue	4	\$369,300	\$13.77	\$ 5,085	12	\$6.89	\$106.89	\$1,283	\$ 3,802
71 Summer Street	11	\$818,500	\$13.77	11,271	30	\$6.89	\$106.89	3,207	8,064
Total	<u>15</u>			<u>\$16,356</u>	<u>42</u>			<u>\$4,490</u>	<u>\$11,866</u>