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

Making government work better

Official Audit Report – Issued October 12, 2016

Wareham Housing Authority

For the period July 1, 2012 through June 30, 2014

State House Room 230 ■ Boston, MA 02133 ■ auditor@sao.state.ma.us ■ www.mass.gov/auditor

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October 12, 2016

Mr. Robert Powilatis, Chair
Wareham Housing Authority
57 Sandwich Road
Wareham, MA 02571

Dear Mr. Powilatis:

I am pleased to provide this performance audit of the Wareham Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2014. My audit staff discussed the contents of this report with management of the Authority, whose comments are reflected in this report.

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

Sincerely,

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

CMR	Code of Massachusetts Regulations
DHCD	Department of Housing and Community Development
HAFIS	Housing Authority Financial Information System
LHA	local housing authority
OIG	Office of the Inspector General

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Wareham Housing Authority for the period July 1, 2012 through June 30, 2014. However, in the areas of board governance, the executive director's pay, and unit inspections, we found it necessary to expand our review outside our audit period. For the executive director's pay, we added the period January 1, 2010 through June 30, 2012, and for board governance, we added the period July 1, 2014 through December 31, 2014. We also conducted onsite unit inspections on July 9, 2015.

In this performance audit, we reviewed and assessed selected activities of the Authority, such as certain aspects of its financial operations, tenant eligibility, applicant waiting lists, procurement of goods and services, unit inspections, governance issues, and compliance with applicable reporting and data-collection requirements.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 **Page 8**	The Authority did not have adequate documentation to support $220,516 in compensation it provided to its former executive director.
Recommendation **Page 9**	The Authority's board of commissioners should establish and implement internal controls, policies, and procedures regarding payroll, time, and attendance.
Finding 2 **Page 9**	The Authority's board of commissioners did not send the former executive director's contract to the Department of Housing and Community Development (DHCD) for approval or ensure that her contract included essential terms like her annual salary.
Recommendations **Page 10**	1. The Authority's board of commissioners should establish employment policies and procedures that govern the hiring of all employees, including the executive director. The next contract negotiated by the board should be discussed at an open and fully attended board meeting and should stipulate the length of employment, the negotiated salary, and reasonable benefits to be provided to the executive director. 2. Hiring and agreed-upon contracts should be voted on by the full board at a scheduled open meeting, fully documented in the meeting minutes. 3. The board should send approved contracts to DHCD for review and approval.
Finding 3 **Page 11**	The Authority did not maintain waiting-list ledgers that documented the name and eligibility of each person who had applied for housing.
Recommendation **Page 11**	The Authority should maintain written waiting-list ledgers and ensure that each applicant who is determined to be eligible is entered on the appropriate waiting list.

Finding 4 **Page 12**	The Authority and its fee accountant did not reconcile differences between amounts posted to its general ledger and amounts in its financial statements and individual tenant records.
Recommendations **Page 13**	1. The Authority should require its fee accountant to reconcile tenants' accounts-receivable and general-ledger records. 2. The Authority's board of commissioners should ensure that these reconciliations are performed.
Finding 5 **Page 14**	The Authority did not accurately maintain its vacant-unit list.
Recommendations **Page 15**	1. The Authority should ensure that it properly reports all required housing data in DHCD's Housing Authority Financial Information System. If necessary, the Authority should seek DHCD's assistance to obtain an understanding of the system and how to enter the necessary data. 2. The Authority should establish policies and procedures related to the administration of this process.
Finding 6 **Page 15**	The Authority did not maintain unit inspection forms.
Recommendations **Page 16**	1. The Authority should develop an annual inspection schedule for all the dwelling units it manages. 2. After inspecting a unit, the Authority should generate a work order to make the unit compliant with the State Sanitary Code. 3. The Authority should retain an inspection report for each inspection.
Finding 7 **Page 17**	The Authority did not accurately calculate or sufficiently document tenant rent.
Recommendations **Page 17**	1. The Authority should review the affected tenant files and make the appropriate adjustments to each tenant account. 2. The Authority should give refunds to tenants who were overcharged. 3. The Authority should ensure that all necessary income and expense documentation is obtained and kept in tenant files for review.

Finding 8 **Page 18**	The Authority did not properly administer the payment of expenses.
Recommendations **Page 19**	1. The Authority should update its policies for its disbursement process. This process should include the following: a. purchase orders for all disbursements except payroll b. invoices maintained to support disbursements c. not paying state sales tax d. stamping all invoices and supporting documentation with "Paid" e. listing all disbursements on a warrant that is presented to the board for approval and signature by two members
Finding 9 **Page 20**	The Authority did not maintain a complete inventory list of its property and equipment or reconcile an inventory list to its financial records.
Recommendations **Page 21**	1. The Authority should implement formal policies and procedures for managing its property and equipment. The policies should include a requirement that an annual inventory be conducted and that any discrepancies be investigated and resolved. 2. The Authority should immediately conduct a physical inventory of all property and equipment in its possession and compare it to the current inventory list on hand. It should investigate any discrepancies and make adjustments to bring the current inventory up to date. 3. The Authority should give the results of the inventory to the fee accountant, who should reconcile the financial value of the inventory list to that of the inventory on the general ledger and financial statements. This reconciliation should also be done annually thereafter.
Finding 10 **Page 22**	The Authority made $12,838 of credit-card purchases, including duplicate payments, without sufficient documentation.
Recommendations **Page 23**	1. The Authority should update its policies to include the use of its credit cards. These policies should require that all documentation related to credit-card purchases be reviewed by management for appropriateness and be retained. They should also require that receipts be reconciled to the monthly credit-card statements to ensure that the Authority does not pay statements twice. 2. The Authority could also consider additional controls such as establishing a list of authorized credit-card users.
Finding 11 **Page 23**	The Authority's board of commissioners did not meet for 7 of the 35 meetings scheduled during our audit period.
Recommendation **Page 24**	The Authority's board of commissioners should ensure that it holds meetings at least once a month. If this is not feasible, it should amend its bylaws regarding the frequency of meetings.

OVERVIEW OF AUDITED ENTITY

The Wareham Housing Authority is authorized by, and operates under, Chapter 121B of the Massachusetts General Laws, as amended. Its administrative offices are located at 57 Sandwich Road in Wareham, Massachusetts.

The Authority is governed by a five-member board of commissioners. Four commissioners are elected by the citizens of Wareham, and one is a state appointee. The board now employs an administrator to manage the Authority's day-to-day activities. The administrator is supported by a part-time office employee and a full-time maintenance employee along with three part-time maintenance personnel.

The Authority manages and oversees 104 state-subsidized housing units for elderly tenants. It also managed 50 Massachusetts Rental Voucher Program units of scattered-site, landlord-owned, state-subsidized units and 20 federal scattered-site, landlord-owned, federally subsidized units for the first six months of the audit period. The federal units were forfeited in December 2012 for financial and management reasons and are now managed by other housing authorities.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Wareham Housing Authority for the period July 1, 2012 through June 30, 2014. In the areas of board governance and the executive director's pay, we found it necessary to expand our testing outside our audit period. For the executive director's pay, we added the period January 1, 2010 through June 30, 2012, and for board governance, we added the period July 1, 2014 through December 31, 2014. We also conducted onsite unit inspections on July 9, 2015.

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. However, we could not review tenant selection because the Authority had not updated its waiting-list ledgers since 2006.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Were administrative expenses charged to the proper accounts?	**Yes**
2. Did administrative expenses have adequate supporting documentation?	**No; see Findings 8 and 10**
3. Does the Authority properly manage its rent-collection process, including reconciling tenant accounts-receivable balances?	**No; see Finding 4**
4. Does the Authority submit its financial statements and budgets in accordance with Department of Housing and Community Development (DHCD) requirements?	**Yes**
5. Did the Authority determine tenant eligibility and placement, perform annual rent redeterminations, and report vacancies in accordance with DHCD regulations?	**No; see Findings 3, 5, and 7**
6. Does the Authority perform an annual inspection of all units and document the inspections?	**No; see Finding 6**

Objective	Conclusion
7. Does the executive director comply with DHCD requirements regarding payroll and documentation of time and attendance?	**No; see Findings 1 and 2**
8. Does the Authority maintain an up-to-date inventory list of its property and equipment and conduct a physical inventory annually according to DHCD requirements?	**No; see Finding 9**
9. Were the board of commissioners' meetings held as required and were they appropriately attended to properly oversee and govern the business affairs of the Authority?	**No; see Finding 11**
10. Is there adequate documentation for all Authority credit-card expenses?	**No; see Finding 10**

Our audit was initiated, at the request of the Authority's board of commissioners, because of suspicion of irregularities and questionable activities at the Authority. While we conducted our audit fieldwork, Authority officials notified us that personnel from the state's Office of the Inspector General (OIG) were investigating certain transactions, involving agency real estate and vehicles, that had been made by its former executive director. OIG personnel were statutorily prohibited from disclosing the specific transactions they were reviewing. In order to avoid any duplication of effort, we did not review any real estate or vehicle transactions involving the former executive director as part of our audit.

To achieve our audit objectives, we gained an understanding of the internal control environment and tested the relevant internal controls for administrative expenses.

Further, we conducted audit testing in the following areas:

- We examined the Authority's organizational chart and financial records, both electronic and hardcopy, including pertinent source documents.
- We determined the reliability of computer-generated data from the Authority's accounting system (QuickBooks) by tracing certain electronic transactions to original source documents as well as making relevant inquiries of management personnel who were responsible for the reliability of the data. We determined that the data were sufficiently reliable for the purposes of our audit report. For tests of transactions where we used a nonstatistical sampling method, the results could not be projected to the populations.
- For our test of administrative expenses, we selected a nonstatistical sample of 30 non-payroll administrative expenditures, totaling $22,945, to determine whether they were properly charged and had adequate supporting documentation.

- We reviewed procedures and records related to the Authority's recording of tenant accounts receivable and prepaid rents to determine whether its individual tenant records agreed with the amounts on the general ledger and financial statements.

- We reviewed the Authority's submission of its fiscal year 2013 and 2014 annual budgets and financial statements to DHCD. We compared these financial statements to the Authority's general ledger.

- For our test of tenant selection and occupancy, we reviewed the Authority's master ledger and waiting-list ledgers to determine whether the Authority updated its ledgers for tenant selection and whether tenants were properly selected for occupancy in accordance with DHCD regulations. It was not possible to determine whether tenants who applied for housing were selected in the correct order because the waiting-list ledgers had not been updated since 2006.

- We reviewed the Housing Authority Financial Information System (HAFIS) online vacancy ledger to determine whether the vacancies were properly reported to DHCD and maintained in accordance with DHCD regulations. (HAFIS is maintained by DHCD and is updated daily with the numbers of housing units that are vacated or made available.)

- We reviewed unit-inspection procedures and records to verify compliance with DHCD inspection requirements. We also performed a physical inspection of four units. The Authority could not provide us with documentation of unit inspections for fiscal year 2013.

- We reviewed the former executive director's salary and fringe benefits and assessed compliance with DHCD regulations. To accomplish this, it was necessary for us to review payments made to the former executive director outside our audit period. Payments were made from January 1, 2010 through June 30, 2013. It was not possible to verify the former executive director's time and attendance because timesheets and documentation to substantiate the accrual of benefit time were missing.

- We reviewed the Authority's contract with its former executive director to determine whether the board of commissioners had a properly executed contract that was processed in compliance with DHCD regulations.

- We reviewed PDF records for Authority-owned property and equipment to determine whether property records were up to date, an annual inventory was conducted, and all property and equipment were accounted for.

- We reviewed the Authority's board of commissioners' meeting minutes to determine whether meetings were attended by a majority of board members and were compliant with the Authority's bylaws.

- We reviewed all 61 credit-card purchases made by the Authority during the audit period to determine whether they were Authority-related and had adequate supporting documentation.

- We selected a nonstatistical sample of 39 tenant files to determine whether annual rent redeterminations were calculated properly in accordance with DHCD requirements.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Wareham Housing Authority did not have adequate documentation to support $220,516 in compensation to its former executive director.

From January 1, 2010 through June 30, 2013, the Wareham Housing Authority provided its former executive director with $220,516 in compensation for time worked, and accrued paid leave, that were not adequately documented. Specifically, from January 1, 2010 through December 31, 2012, the former executive director did not complete and submit any timesheets that indicated the days and hours she worked at the Authority. Although she submitted weekly timesheets from January 1, 2013 through June 30, 2013, they did not indicate the days and hours she worked but rather listed only her total hours for the week.

Consequently, there was no complete record of her attendance and/or accrued paid leave balances that the board of commissioners could review to determine whether her compensation was appropriate. This means there is no assurance that the former executive director was entitled to all the compensation she received during this period. This compensation included an individual check for $15,590 that, according to the Authority's fee accountant, was for her unused sick and/or vacation time.

Authoritative Guidance

Section 15 of the Department of Housing and Community Development (DHCD) Accounting Manual states the following regarding controls over the preparation of payroll:

> *<u>Leave Record</u>: If the personnel policy of the Local Authority provides the accrual of annual and sick leave for employees, a record of all leave earned and taken must be maintained for each employee.*
>
> *Attendance and leave reports must be kept on all employees. These reports are to be kept on an updated basis as pay periods close.*

The Authority's policies do provide for such accrual, so its executive director should have kept timesheets.

In addition, DHCD Public Housing Notice 2007-6 states, "Daily time sheets and attendance records for executive directors must be maintained at the [local housing authority, or LHA] office for review by the Board, DHCD, and the Office of the State Auditor."

Reasons for Noncompliance

The former executive director resigned at the end of June 2013, and we were unable to speak with her about the reasons for the lack of documentation of her time and attendance. The Authority's board of commissioners had not established policies and procedures that required her to complete weekly timesheets.

Recommendation

The Authority's board of commissioners should establish and implement internal controls, policies, and procedures regarding payroll, time, and attendance.

Auditee's Response

> *The failure of the former Executive Director to complete time sheets during the 3 and 1/2 years you reviewed from 01/01/2010 through 06/30/2013 indicates that the Former Board did not know whether she was being paid for days worked or for vacation days, sick or other. Other relevant criteria would be the former Executive Director's contract which stipulated the accrual of sick and vacation days. Therefore, she was required to, but did not comply with the terms of her contract by maintaining appropriate time and attendance records to justify her pay and the then Board failed to enforce and ensure contract compliance. Furthermore, her contract specifically prohibited payment of any unused sick days in the event of separation or termination. This indicates, based on her payment at the time, that the $15,590 she received, was for 17 weeks of unused vacation time. Equally concerning is the fact that her paychecks were signed by herself and a tenant Board Member, who coincidently was the Treasurer. As you know, this compensation issue has various ramifications of inflating the former Director's pension benefit, and burden the state taxpayers and the tenants. We, to the contrary have put controls in place to prevent any re-occurrence of such questionable activity and conflict. In addition, this compensation and time accrual issue is further questionable because of the fact as DHCD noted in their report that the former Executive Director was also co-directing at the Carver Housing Authority. The new Administrator, has since her arrival implemented a system and practice of approving the time worked by all staff which is verified and approved by the supervisor. When the weekly payroll checks are presented for payment, approved time sheets are included. The weekly payroll warrant is approved by the Board, requiring three signatures and the checks themselves two signatures, none of which can be the Administrator.*

2. The Authority's board of commissioners did not properly administer the contract for the Authority's former executive director.

The Authority's board of commissioners did not send the former executive director's contract to DHCD for approval as required by DHCD regulations. DHCD stated that it did not approve this contract; it also did not have the contract on file. In addition, although the contract was signed by the board chair and the former executive director, it did not contain essential terms such as annual salary. As a result, the

Authority did not have formal benchmarks by which to measure the executive director's performance, hold her accountable for performing specific responsibilities, and establish controls over compensation.

Authoritative Guidance

According to a DHCD memo ("Length of Term of the Executive Director Contract of Employment") from March 1999, authorities who select an executive director "should negotiate a contract of employment. . . . Employment terms are to be negotiated and agreed to by the parties."

Best business practices for services require that each contract contain essential terms such as compensation and length of contract.

Finally, Section 4.05 of Title 760 of the Code of Massachusetts Regulations (CMR) states,

> 1. *In approving salaries and wages in an LHA's budget, the Department shall determine that all of the following conditions have been met . . .*
>
>   d. *If the LHA and the executive director shall have negotiated an employment agreement to be funded in whole or in part by the Department, the Department shall have approved the agreement.*

Reasons for Noncompliance

The board members in place at the time of the contract discussions may not have been aware of the requirement that the contract be submitted to DHCD for approval. Board meeting minutes noted that the board discussed the contract; however, no board member made a motion to approve the contract and no formal vote was taken.

Recommendations

1. The Authority's board of commissioners should establish employment policies and procedures that govern the hiring of all employees, including the executive director. The next contract negotiated by the board should be discussed at an open and fully attended board meeting and should stipulate the length of employment, the negotiated salary, and reasonable benefits to be provided to the executive director.
2. Hiring and agreed-upon contracts should be voted on by the full board at a scheduled open meeting, fully documented in the meeting minutes.
3. The board should send approved contracts to DHCD for review and approval.

Auditee's Response

The contract between the Former Board and Former Executive Director was clear and the requirements should have been known by both parties. The new Board and Administrator drafted new policies and implemented practices consistent with applicable enabling statutes and requirements which provide for terms of employment, job descriptions and duties and responsibilities, benefits and compensation for all employees.

3. The Authority's former executive director did not keep waiting-list ledgers as required by DHCD regulations.

The Authority did not maintain waiting-list ledgers that documented the name and eligibility of each person who had applied to it for housing. As a result, we could not determine whether applicants were selected for housing in their proper order; applicants with the greatest need for housing may have been passed over for others who had less need.

Each tenant had a control number assigned to his/her application, and this control number was in agreement with the master ledger. However, the Authority had not used waiting lists showing each tenant's eligibility since August 2006; therefore, eligible tenants were not added to the appropriate waiting lists for which they applied.

Authoritative Guidance

Section 5.16(2) of Title 760 of the CMR states, "The LHA shall maintain permanent handwritten ledgers including a master file ledger and waiting list ledgers."

Reasons for Noncompliance

The Authority's former executive director was responsible for maintaining the master and waiting-list ledgers. However, she resigned in June 2013 and we were unable to determine why the waiting list was not maintained. She and her assistant (who had also left the Authority by the time of our audit) were the only staff members before the current staff was hired, so there were no other employees we could ask about this matter.

Recommendation

The Authority should maintain written waiting-list ledgers and ensure that each applicant who is determined to be eligible is entered on the appropriate waiting list.

Auditee's Response

After their arrival, the interim manager and the new Administrator instituted corrective action to develop a proper record keeping system to ensure compliance, so that applicants are housed accordingly. This while dealing with correctly recording the backlog of 1,958 applications found in the office when they arrived. The wait list as you noted, had not been maintained since 2006.

4. The Authority had inadequate controls over its tenant accounts receivable.

The Authority and its fee accountant did not reconcile differences between amounts posted to its general ledger and amounts in its financial statements and individual tenant records. As of June 30, 2013, the Authority's general ledger showed a tenant accounts-receivable balance of $9,479 and its tenant accounts-receivable records showed $16,334. As of June 30, 2014, the Authority's general ledger showed a tenant accounts-receivable balance of $11,538 and its tenant accounts-receivable records showed $41,054. Finally, at the beginning of the audit period, there was a $242 variance between the general ledger and the financial statements the Authority submitted to DHCD. (This variance was corrected during the audit period.) Upon further investigation of the records, we identified the following specific problems:

- Tenant rent charges were not reflected correctly in the general ledger for four of the eight months sampled.
- The Authority did not record prepaid rents. We were able to determine that the rents had been paid by examining cash receipts, but did not find corresponding entries in the general ledger.

The Authority's lack of reconciliations of its accounts-receivable balances may prevent it from effectively managing certain aspects of its operations, such as budgeting. Further, DHCD's ability to make decisions is hampered by unreliable financial information.

Authoritative Guidance

Section 8 of the DHCD Accounting Manual states,

The management of each Local Housing Authority is responsible for developing and implementing a system of internal control which will:

- *Safeguard the assets of the organization.*
- *Assure the accuracy and reliability of accounting data.*

The Authority's contract for accounting services with its fee accountant identifies the following duty of the fee accountant:

> *Reconciling tenants accounts receivable General Ledgers balances to the summarized tenant ledgers' accounts.*

It is the responsibility of Authority management to enforce the conditions of this contract.

Reasons for Noncompliance

The Authority's fee accountant said that he was not aware that it was his responsibility to reconcile the general ledger's accounts-receivable records with the tenants' accounts-receivable records. He also could not explain the $242 variance.

Recommendations

1. The Authority should require the fee accountant to reconcile tenants' accounts-receivable and general-ledger records.
2. The Authority's board of commissioners should ensure that these reconciliations are performed.

Auditee's Response

> *When the interim manager and new Administrator arrived they found substantial variances between the sum total of tenant's accounts receivable as depicted in the Authority's financial statement (Balance Sheet). Significant time and effort was exhausted in confirming and verifying the accuracy and validity of these balances and making the appropriate corrections. They found some tenants were over charged a total $15,000 which had to be repaid. Over that time our Administrator worked with our fee Accountant so that we can be assured that correct amounts are reflected on the Authority's balance sheet and are reconciled with the subsidiary individual tenant accounts. This is done on a monthly basis and is presented at the Board Meeting as part of the Administrator's report. The Fee Accountant's contract was in place and is not necessarily what we would have negotiated.*
>
> *The Fee accountant explained that:*
>
> *He obtains a monthly rent roll for the total amount charged for rents. Cash receipts are extracted from reconciled bank statements. These total amounts are posted to the General Ledger. Any difference between the General Ledger Balance and the individual tenant records is the responsibility of the WHA.*

5. The Authority did not accurately maintain its vacant-unit list.

The Authority did not accurately maintain its online list of vacant units in the Housing Authority Financial Information System (HAFIS).[1] Without complete or accurate information, the Authority cannot generate timely or correct information to house families in need. Further, without accurate information, DHCD cannot effectively monitor vacancies and placements to address housing needs across the Commonwealth.

We reviewed the information the Authority entered on this list during our audit period and noted the following problems:

- The same unit was listed three times, with the same date of vacancy each time.
- The Authority listed the address of its administrative office as an available vacant unit on January 1, 2014. Although it was outside our audit period, we noted during our review of its records that the Authority had also listed this address as an available vacant unit on January 1, 2008.
- In fiscal year 2014, the Authority made 10 entries that did not identify the specific units vacated or document the dates when they became vacant or filled. The entries only identified the unit numbers, not the buildings within a project.

Authoritative Guidance

DHCD Public Housing Notice 2008-04 states,

> *Accurate and up-to-date vacancy and placement information are vital. The information is contained in the existing on-line vacancy reporting system. It is crucial that LHA staff maintain the on-line vacancy reporting system on a daily basis.*

Reasons for Noncompliance

We were unable to determine who made these entries on the online vacancy list. We spoke to the administrator currently in charge of the Authority, who stated that her knowledge of HAFIS was limited. In addition, there were no policies and procedures in place that documented the process for listing and filling a unit after it becomes vacant.

1. HAFIS was implemented by DHCD as an online tool to assist LHAs in managing their vacancy and occupancy data in state-aided housing developments.

Recommendations

1. The Authority should ensure that it properly reports all required housing data in HAFIS. If necessary, the Authority should seek DHCD's assistance to obtain an understanding of the system and how to enter the necessary data.
2. The Authority should establish policies and procedures related to the administration of this process.

Auditee's Response

Shortly after the arrival of the new administration, including the interim manager, we became aware of this problem of faulty record keeping, including that the office was erroneously listed as a unit for many years, after it was converted to office space many years ago, by the former administration. The new Administrator, after arrival notified DHCD of this. The former administration had allocated the wrong unit number 57 as the office and took unit number 57 offline. Unit 51 was vacant in the HAFIS System for 7 years. DHCD reached out to the interim management and the new Administrator to put in 2 and 1/2 years of missing and inaccurate documentation in the vacancy HAFIS System. DHCD and other LHA's were also dealing with the limitations and shortcomings of HAFIS. The system as well as the training have been updated. Our Administrator offered, sought after advice, in revising a new system that was implemented at DHCD in June of 2016 along with correctly listing unit 51.

Auditor's Reply

According to its response, the Authority has taken measures to address our concerns in this area. We again recommend that it establish policies and procedures related to the administration of this process.

6. The Authority did not maintain unit inspection forms.

Although the Authority had documentation to substantiate that it had conducted the required inspections of its housing units during fiscal year 2014, it did not have inspection reports on file to show whether it performed required annual unit inspections during fiscal year 2013. The current administrator indicated that the Authority conducted inspections in fiscal year 2014 to determine how much work needed to be done to its units.

Without proper inspection reports to provide evidence that unit inspections were conducted, there is inadequate assurance that the Authority is regularly monitoring its units to ensure that they conform to minimum standards for safe, decent, and sanitary housing.

Authoritative Guidance

Section 3F of DHCD's Property Maintenance Guide states,

> *At least once a year every LHA dwelling unit should be systematically observed by carefully oriented inspectors. In addition, every time a unit becomes vacant it should be inspected so that the necessary repairs can be made to prepare the unit for the next resident.*

Further, Section 3B states,

> *To insure comprehensive accountability and efficient maintenance work scheduling, every inspection should result in a written report that documents, by specific location, the condition of every component . . . inspected.*

Reasons for Noncompliance

The Authority did not have a formal inspection program or policies and procedures that dictated when and how unit inspections should be performed.

Recommendations

1. The Authority should develop an annual inspection schedule for all the dwelling units it manages.
2. After inspecting a unit, the Authority should generate a work order to make the unit compliant with the State Sanitary Code.
3. The Authority should retain an inspection report for each inspection.

Auditee's Response

> *The prior administration had not conducted any annual unit inspection since 2007. We immediately rectified this in early Fiscal 2014 and conducted a 100% unit inspection as well as requested the help of the Town's Board of Health and the Fire Department. These inspections identified a serious state of disrepair and numerous issues needing remedy as well as significant structural type issues. In fact, as a result we went on a campaign of maintenance and repair to the extent our budget could sustain and because of the lack of State funding available, we requested and received [Community Preservation Act] funding from the Town for replacement of sub-floor (crawl space) plumbing and asbestos remediation. Our new Administrator has developed and instituted a work order maintenance system and has sought Emergency modernization and Formula Funding from DHCD to address other long overdue Capital type improvements. We also obtained a $100,000 state grant for Fiscal 2016 for maintenance and repair to help us catch up with long overdue repairs beyond what our budget and exhausted reserves could sustain.*

Auditor's Reply

According to its response, the Authority has taken measures to address our concerns in this area. The Authority should ensure that its work-order maintenance system includes an annual inspection schedule and a requirement that all annual inspections be documented.

7. The Authority did not accurately calculate or sufficiently document tenant rent.

Thirteen, or 33%, of the 39 tenant files we reviewed either showed incorrect rent redeterminations or lacked the supporting documentation to substantiate the accuracy of rent charged to the tenant. Specifically, our review of 39 tenant rent determinations during the audit period showed the following:

- Seven tenants had been overcharged between $12 and $56 on their monthly rents.
- Five tenants had been undercharged between $5 and $163 on their monthly rents.
- There was one rent determination in fiscal year 2014 with no income or expense documentation in the tenant file to substantiate the rent charged, so the Authority cannot be certain that this tenant was charged the correct amount.

Authoritative Guidance

Section 6 of Title 760 of the CMR establishes tenants' monthly rents based on household income. This section also defines income items that are to be included and excluded from the tenant's gross household income. Rents are determined annually based on information provided by the tenant.

Authority management is responsible for ensuring that its staff accurately calculates the monthly rent amounts for its tenants.

Reasons for Noncompliance

Because the Authority's former executive director and her assistant were no longer at the Authority, we were unable to determine the exact cause of these issues.

Recommendations

1. The Authority should review these tenant files and make the appropriate adjustments to each tenant account.
2. The Authority should give refunds to tenants who were overcharged.

3. The Authority should ensure that all necessary income and expense documentation is obtained and kept in tenant files for review.

Auditee's Response

Our interim management and new Administrator upon rent confirmation and verification found significant problems with tenant eligibility and selection as well as rent computations by the prior administration and took measures to properly adjust and correct rents and obtain appropriate income and expense documentation to be included in tenant files. Now as a result of re-determining all prior rents and doing so correctly going forward, [we had] an increase in income from rents and other income categories as a result of sound and consistent cash management practices and oversight. At our monthly meetings, the New Administrator provides us with a detailed report on the status of receivables and our Internal Audit and Compliance Subcommittee meet with the Administrator and we randomly review selected files for completeness as well as the rent determinations. During a monitoring review by our DHCD field rep the positive progress and changes were recognized.

8. The Authority did not properly administer the payment of expenses.

In our review of 30 administrative and maintenance expenditures, totaling $22,945, made by the Authority during the audit period, we found the following problems:

- There were no invoices or backup documentation for 3 disbursements that totaled $972.
- There were no purchase orders on file for any of the 30 disbursements tested.
- None of the invoices were canceled or stamped "Paid."
- The Authority did not have any expenditure warrants[2] for approval by the board of commissioners until January 2014, and four of these warrants (from January through April 2014) were unsigned.
- Fourteen disbursements were not listed on warrants to be approved by the board.
- Five of the invoices tested included sales tax, totaling $1,029, paid by the Authority, which should not have been paid because the Authority is exempt from paying them.

This lack of supporting documentation, oversight, and approval by the Authority's management leaves it vulnerable to waste, fraud, and abuse by employees. The fact that the Authority is not large and has a small number of employees increases the risk that any fraud or abuse will not be detected.

2. A warrant is a collection of vouchers.

Authoritative Guidance

Section 8 of DHCD's Accounting Manual states that each LHA is responsible for developing and implementing a system of internal controls and should implement "the use of forms, documents, and procedures that facilitate control and provide for proper approvals." The section also states,

> *When checks are submitted for signature, a voucher along with supporting documents should be presented. Supporting documents should then be stamped or marked "Paid" so as to prevent their use of duplicate payments.*

The Authority's Bookkeeping Policy for accounts payable states, "All expenditures of the Authority will be presented with an Accounts Payable Voucher with invoice attached for signature and approval by two approved signatories of the Authority [i.e., board members]." In addition, as part of its best business practices, the Authority instituted an informal system of approving vouchers through the use of signed warrants in January 2014.

Finally, the Authority has a tax-exempt certificate that was issued on January 4, 1989 and has no expiration date.

Reasons for Noncompliance

Although the Authority had a written policy on accounts payable, it did not have written procedures describing the requisition, purchasing, receiving, invoice processing, and disbursement process.

Recommendations

1. The Authority should update its policies for its disbursement process. This process should include the following:
    a. purchase orders for all disbursements except payroll
    b. invoices maintained to support disbursements
    c. not paying sales tax
    d. stamping all invoices and supporting documentation with "Paid"
    e. listing all disbursements on a warrant that is presented to the board for approval and signature by two members

Auditee's Response

As explained in reference to items #1 Payroll and #10 Credit Cards we found serious questionable activity regarding payments. Namely the previous management allowed the Executive Director to sign and process checks, including payroll, erroneously paid sales taxes, made duplicate payments of invoices; paid statements balances, instead of individual invoices, resulting in duplicate payments and did not provide the Board with documentation to support checks presented for signatures. Accordingly, because of these conditions, we require, whether for payroll, or accounts payable, that documentation accompany all checks presented for approval and signing, and we have implemented a purchase order system. For payroll that includes time sheets approved by the supervisor, and for all other expenses, approved invoices for supplies with reference to the dwelling units where the products were utilized, this means a purchase order for all supplies purchased. In addition, we include a cover sheet for all accounts payable indicating which general ledger account it pertains to. All paid invoices are date stamped paid (canceled). All payments are presented in a weekly warrant (listing) which requires 3 Board member signatures and 2 Board Member signatures on checks. The Administrator does not sign checks. These control measures preclude the potential for waste, abuse, or illegality.

9. The Authority did not properly administer its inventory process.

The Authority did not maintain a complete inventory list of its property and equipment or reconcile an inventory list to its financial records. The lack of a complete and up-to-date inventory record of Authority-owned furniture and equipment creates an undue risk of undetected loss, theft, or misuse and can result in inaccurate asset values and depreciation expenses in the Authority's accounting records.

During our review of the Authority's inventory, we found the following problems:

- The inventory list on file with the Authority does not include its office equipment.
- The list on file, which identified more than 230 items, did not have asset values for approximately 200 items.
- Most of the items listed did not have purchase dates.
- The Authority could not provide information or evidence of when the list was last updated or when the most recent inventory was taken.
- The fee accountant's depreciation schedule did not agree to the Authority's general ledger or financial statements. We identified a variance of $21,000 for fiscal year 2014.

Authoritative Guidance

Section 15(D) of the DHCD Accounting Manual requires housing authorities to take an annual inventory and maintain an accurate inventory list of all furniture and nonexpendable equipment. The section states, "Physical inventory results must be compared to equipment record and any differences and discrepancies will be reviewed by the LHA for possible adjustments."

Reasons for Noncompliance

The Authority has not established policies or procedures for managing its property and equipment.

Recommendations

1. The Authority should implement formal policies and procedures for managing its property and equipment. The policies should include a requirement that an annual inventory be conducted and that any discrepancies be investigated and resolved.
2. The Authority should immediately conduct a physical inventory of all property and equipment in its possession and compare it to the current inventory list on hand. The Authority should investigate any discrepancies and make adjustments to bring the current inventory up to date.
3. The Authority should give the results of the inventory to the fee accountant, who should reconcile the financial value of the inventory list to that of the inventory on the general ledger and financial statements. This reconciliation should also be done annually thereafter.

Auditee's Response

All fixed assets with a value of more than $5,000 are capitalized and recorded in the General Ledger. DHCD's accounting manual requires that a subsidiary inventory be maintained for all items with a value of more than $500 including ranges and refrigerators. This subsidiary inventory is not required to be in the General Ledger. The capitalized inventory for equipment is listed on the depreciation schedule and recorded in agreement with the general ledger. The depreciation schedule includes buildings, improvements, and capitalized equipment. During the audit period a modernization project was completed and was included on both the depreciation schedule as a building improvement and in the general ledger under buildings and improvements. The depreciation schedule has an amount posted for soft costs of $21,000 that were inadvertently included in the capitalized amount on the general ledger. This difference was corrected.

Auditor's Reply

Though the Authority has taken steps to correct the $21,000 variance between the general ledger and its financial statements, it should also establish policies and procedures for managing its inventory that include conducting an annual physical inventory and resolving any discrepancies between the items in its possession and the current inventory list.

10. The Authority lacked supporting documentation for some credit-card purchases.

From July 1, 2012 through June 30, 2014, the Authority made $12,838 of credit-card purchases that lacked specific documentation such as credit-card statements, invoices, receipts, and purchase requisitions. In some cases (totaling $678 of purchases), the Authority paid twice for the same purchase—first by paying the original invoice for the item and later by paying a credit-card statement that listed the item again. Without documentation, the Authority cannot substantiate that purchases made with its credit cards were for the benefit of the Authority and were not simply personal purchases.

We noted the following:

- During fiscal years 2013 and 2014, the Authority made gasoline purchases totaling $3,189. These purchases were made using the Authority's Exxon Mobil credit card, but there were no receipts or vouchers to support the transactions.
- Items totaling $8,921 were purchased with Home Depot, Walmart, Lowe's, and Staples credit cards, but there was no supporting documentation, other than the credit-card statements, to support the transactions. The items included a 32-inch Samsung LED TV for $295, which we were unable to locate in the Authority's inventory or at the Authority; personal items for $216 that were not traceable to Authority use or to its inventory; $678 of items that had already been paid for; and $7,732 of other items. Personal items purchased in 2013 included the following:
    - candy purchases
    - a Jarden Quartz heater
    - a car phone charger
    - a printer from Staples (whereabouts unknown; not known to be on Authority premises)
    - The Authority also made two purchases, totaling $728, using a Bank of America credit card, for which it did not have the supporting credit-card statements, invoices, or receipts.

Authoritative Guidance

As previously mentioned, the Authority's Bookkeeping Policy for accounts payable states that records of all expenditures must be kept.

Reasons for Noncompliance

The Authority has policies for paying its accounts-payable operating expenses; however, they do not address the use of credit cards or establish specific accountability by providing a list of authorized credit-card users. After the former executive director resigned, the Authority's new board chair reviewed the credit-card use and eliminated several of the Authority's credit cards.

Recommendations

1. The Authority should update its policies to include the use of its credit cards. These policies should require that all documentation related to credit-card purchases be reviewed by management for appropriateness and be retained. They should also require that receipts be reconciled to the monthly credit-card statements to ensure that the Authority does not pay statements twice.
2. The Authority could also consider additional controls such as establishing a list of authorized credit-card users.

Auditee's Response

Please also refer to items # 1 and #8. This was of concern to us from the very beginning after the prior Administration left. As you indicated, duplicate payments were made by paying both individual invoices, statement balances, and paying them both again. This also applied to mobile phone bills for people who were no longer with the Authority and had deceased! Because of this and that some charges were not business related we canceled all credit cards and canceled cell phones. This was difficult and time consuming to deal with and resolve.

11. The Authority's board did not provide proper governance.

The Authority's board of commissioners did not meet for 7 of the 35 meetings scheduled during our audit period. This included 4 consecutive meetings from December 2012 through March 2013. Overall, this means that the board missed 20% of its meetings during the audit period. Missed meetings and lack of full attendance hinder the board's ability to adequately govern the Authority's financial and physical operations.

Authoritative Guidance

Section 3 of Article III of the Authority's bylaws states, "Regular meetings of the Authority shall be held at least once in each calendar month for the transaction of the business of the Authority."

Reasons for Noncompliance

We could not determine the exact reasons for canceled meetings. Current Authority management was not in place during the period of our review and could not provide a reason for board absences or canceled meetings.

Recommendation

The board of commissioners should ensure that it holds meetings at least once a month. If this is not feasible, it should amend its bylaws regarding the frequency of meetings.

Auditee's Response

> *From the beginning records revealed the failure to hold meetings by the prior administration. Beyond that, no minutes were filed with the Town clerk and what was available as to agendas and minutes indicated lack of compliance with the so called "open meeting law." Any information provided or reported to the Board by the former Administrator was woefully lacking. Again, as stated regarding issue #2, neither the Former Board ensured compliance nor did the Former Executive Director comply with her contract which required providing specific information and performance. By comparison the new administration, Board, and Administrator meet regularly, have comprehensive agendas, and Board packages containing extensive, detailed, and documented reporting at our meetings covering all programs and activities of the WHA. As such, we fulfill our fiduciary responsibilities of governing the WHA. As a result, WHA is operating at a more efficient and economical manner, avoiding unnecessary costs, enhancing revenues, safeguarding our assets and providing for a safe and decent environment for our residents in compliance with the Laws of the Commonwealth of Massachusetts.*