



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

Making government work better

Official Audit Report – Issued March 29, 2012

Weymouth Housing Authority

For the period April 1, 2009 through October 31, 2010



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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Weymouth Housing Authority. This audit was initiated subsequent to the retirement of the Authority's former Executive Director. The objectives of our audit were to review all records and accounts for cash, bank accounts, investments, accounts receivable, and expenditures for the period April 1, 2009 through October 31, 2010 to ensure their accuracy and validity, and to provide the new Executive Director and Board of Commissioners with an assessment of the Authority's financial condition and adequacy of internal controls as a baseline and indicator of areas needing improvement and corrective action. We reviewed selected financial, budgetary, and operational activities of the Authority for completeness and accuracy. We also reviewed financial and operational activities to determine whether the Authority was in compliance with applicable laws, rules, and regulations. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2009-0815-3A).

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.

Based upon our review, we have concluded that, except for the matters disclosed in this report, for the period April 1, 2009 through October 31, 2010 the Authority's records and accounts for cash, bank accounts, investments, accounts receivable, and expenditures were accurate and properly accounted for and the Authority complied with applicable laws, rules, and regulations for the areas tested.

1. PRIOR AUDIT RESULTS PARTIALLY RESOLVED OR UNRESOLVED

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Our prior audit, which covered the period January 1, 2007 to March 31, 2009, disclosed that (a) various instances of noncompliance with the State Sanitary Code existed at the Authority's state-aided housing programs, (b) vacated units were not occupied in a timely manner, and (c) structural deficiencies and unsafe conditions existed at an administration building. Our follow-up review disclosed that although the Authority has taken steps to remedy these issues, further action is needed.

2. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER FINANCIAL AND MANAGEMENT ACTIVITIES

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Our review disclosed that the Authority needs to improve its controls over financial and management practices in a number of areas. Because its documented policies and procedures were limited and inadequate for individual phases of its operations, the Authority was not able to develop a comprehensive internal control plan, which may have contributed to the issues discovered during our audit. Specifically, the Authority (a) did not adhere to proper bidding procedures; (b) did not maintain a contract register for

modernization projects; (c) needed to strengthen its expenditure controls; (d) needed to improve its practices regarding inventory controls; (e) made excessive payments to a tenant association; (f) inappropriately shared its resources with a nonprofit corporation (South Suburban Affordable Housing, Inc.); (g) did not possess adequate controls over vacated tenant balances; (h) lacked supervisory signatures on timesheets; (i) did not comply with policies and procedures over petty cash; (j) did not adequately protect confidential employee information; (k) lacked adequate security over tenant and bank account information; (l) lacked adequate controls over credit card expenditures; (m) commingled funds inappropriately; and (n) lacked adequate governance, oversight, and monitoring procedures.

INTRODUCTION

Background

The Weymouth Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority has 80 one-bedroom apartments located at Calnan Circle, 76 one-bedroom apartments located at Harrington Circle, and 60 one-bedroom units located at Water Street for elderly residents (Chapter 667) and 11 one bedroom apartments, 92 two-bedroom apartments, 63 three-bedroom apartments, 20 four-bedroom apartments, and three five-bedroom apartments at various locations for family residents (Chapter 200).

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Authority for the period April 1, 2009 through October 31, 2010. This audit was initiated subsequent to the retirement of the Authority's former Executive Director.

The objectives of our audit were to review all records and accounts for cash, bank accounts, investments, accounts receivable, and expenditures as of October 31, 2010 to ensure their accuracy and validity, and to provide the new Executive Director and the Authority's Board of Commissioners with an assessment of the Authority's financial condition and the adequacy of internal controls as a baseline and indicator of areas needing improvement and corrective action. We reviewed selected financial, budgetary, and operational activities of the Authority for completeness and accuracy. We also reviewed financial and operational activities to determine whether the Authority was in compliance with applicable laws, rules, and regulations. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2009-0815-3A).

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.

To achieve our audit objectives, we reviewed the following:

- Cash management and investment policies and practices to verify that all funds were accounted for and that the balances were accurate and properly stated.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected, maintained, and recorded its resources in compliance with Department of Housing and Community Development (DHCD) requirements.
- Operating revenue accounts to ensure the proper collection, timely deposit, and recording of revenues.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.

Based upon our review, except for the matters disclosed in this report, we have concluded that, for the period April 1, 2009 through October 31, 2010, the Authority's records and accounts for cash, bank accounts, investments, accounts receivable, and expenditures were accurate and properly accounted for and the Authority complied with applicable laws, rules, and regulations for the areas tested.

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AUDIT RESULTS

1. PRIOR AUDIT RESULTS PARTIALLY RESOLVED OR UNRESOLVED

Our prior audit (No. 2009-0815-3A) of the Weymouth Housing Authority, which covered the period January 1, 2007 to March 31, 2009, disclosed that (a) various instances of noncompliance with the State Sanitary Code existed at the Authority's state-aided housing programs, (b) vacated units were not occupied in a timely manner, and (c) structural deficiencies and unsafe conditions existed at an administration building. Our follow-up review disclosed that although the Authority has taken steps to remedy these issues, further action is needed, as discussed below:

a. Noncompliance with State Sanitary Code

The Department of Housing and Community Development's (DHCD) Property Maintenance Guide, Chapter 3(F), requires that inspections of dwelling units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in 105 Code of Massachusetts Regulations (CMR) 410, Minimum Standard of Fitness for Human Habitation (Chapter II of the State Sanitary Code). Our prior audit noted 50 instances of noncompliance with the State Sanitary Code, including broken glass windows/doors, loose doorknobs, water stains on ceilings, lifting and broken floor tiles, broken countertops, crumbling sidewalks and curbs, peeling and flaking paint on walls and ceilings, mildew, and mold. Our follow-up review determined that the Authority has taken corrective action to address 46 of the instances of noncompliance previously noted; however, conditions at four units still required corrective action, as follows.

- Calnan Circle (unit 25A): No vent for bathroom for moisture over tub and shower, contrary to 105 CMR 410.280.
- Pope Towers (units 201, 403, and 506): Kitchen/bathroom vents do not work, contrary to 105 CMR 410.280.

Recommendation

The Authority should continue to appeal to DHCD to provide additional financial support in order to address the remaining instances of noncompliance. DHCD should obtain and provide sufficient funds to the Authority in a timely manner so that it may provide safe, decent, and sanitary housing for its tenants.

Auditee's Response

Calnan Circle unit 25A: The building does not have a mechanical ventilation system at this time. However, recent installation of new modern easy opening windows which replaced 50 year old windows that barely opened has greatly improved the ability to ventilate the bathroom by opening a window that was previously very difficult to open to ventilate the room. The Weymouth Housing Authority will however seek additional funding from DHCD to ensure any deficient ventilation needs are addressed as we move forward.

Pope Towers (units 201, 403, 506): Kitchen and bathroom vents do not work in accordance with 105 CMR 410.280. There are seventeen motor driven ventilation units on the roof of Pope Tower. Upon inspection, all seventeen were operating efficiently as designed. Upon inspection of specific units 201, 403 and 506, all vents were working and drawing air from units as designed. In apts. 201 and 403, vents were closed upon arrival and needed to be manually opened to allow air to be drawn from apt.

As recommended, the Weymouth Housing Authority will continue to seek funding from DHCD so we may provide a safe, decent and sanitary place for our residents to live.

Auditor's Reply

The vents in the Pope Towers units were not operating at the time of our inspection. However, we commend the Authority for ensuring that the Pope Towers ventilation units are now operating efficiently and manually opening the vents in apartments 201 and 403.

b. Delays in Reoccupying Vacant Units

Our prior audit found that the Authority's average turnaround time for reoccupying vacant units was 63 days. DHCD's Property Maintenance Guide requires each housing authority to have a unit reoccupied within 21 working days after the previous tenant has vacated. Our follow-up review disclosed that the Authority has not improved in its efforts to reoccupy units more timely and that the turnaround time has increased to 131 days, resulting in further potential loss of income to the Authority.

Recommendation

The Authority should prioritize renovating and reoccupying its vacant units in order to maximize its rental income. The Authority should also document the reasons for delays in filling vacant units and regularly monitor the unit turnaround process to ensure compliance with DHCD guidelines.

Auditee's Response

The Weymouth Housing Authority has made great strides in reducing the number of vacant units. We are moving rapidly towards our goal of 100% occupancy in the not too distant future. We are presently at 96% occupancy today and this increases each week. Staff has responded well to new plans and objectives that prioritize vacancy completion in a manner that will soon bring the WHA well within the 21 day DHCD turnaround requirement. Of the eleven vacant units the authority presently has five are ready for occupancy and will be leased very soon upon completion of resident screening, another three units will be ready for occupancy before the end of March. This leaves the authority with four units left to prepare for occupancy while we screen applicants for new occupants for these units.

c. Administrative Office Deficiencies

Our prior audit noted deficiencies with the Authority's administrative office that presented a potential hazard to Authority employees, tenants, and visitors. Our follow-up review found that corrective action was taken for three of the nine deficiencies regarding exposed wiring, excessive use of electrical adapters, and exposed wiring surrounding light fixtures. However, six deficiencies remain unresolved, and four additional issues were noted during the current review, as follows:

Unresolved Deficiencies

- Water leaks in many different areas of the building resulting in water stains on ceilings and walls, and mold and mildew throughout the entire three-story building
- Peeling paint on the walls and ceilings
- Holes in walls and ceilings
- Broken tile floors and doors
- A constant foul odor throughout the building
- An unpaved gravel parking lot that presents a safety hazard for both employees, tenants, and the public

New Issues

- A large hole in parking lot that could cause injury to people and damage to property
- Heating system that does not work properly

- Excessive and continuous use of space heater, causing a potential fire hazard
- Trash throughout the second floor, posing a possible fire hazard

It should be noted that the Authority petitioned DHCD to convert a vacant day care center located at the Authority's 200-1 family housing program into a new administrative office, but it did not receive approval. Also, the Authority made numerous attempts to obtain funds to fix the building, to which DHCD has not responded.

Recommendation

The Authority should take corrective action to either fix the deficiencies noted above or relocate the administrative office to another location.

Auditee's Response

In its response, the Authority stated:

- *The heating system has been repaired;*
- *The large hole in the parking lot is scheduled for repair now that the weather permits;*
- *The Authority does not own the parking lot at the top of the hill adjacent to the property. We have been communicating with the Town of Weymouth regarding this issue;*
- *The Authority acknowledges the other issues and is putting a plan in place to resolve these issues in the next ninety days.*
- *The Authority will continue to engage DHCD for funding to assist with providing a safe environment for employees, tenants and visitors.*

2. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER FINANCIAL AND MANAGEMENT ACTIVITIES

Our review disclosed that the Authority needs to improve its controls over financial and management activities in a number of areas. Because its documented policies and procedures were limited and inadequate for individual phases of its operations, the Authority was not able to develop a comprehensive internal control plan. Generally accepted accounting principles advocate that entities such as the Authority establish and implement an adequate internal control

system. Without such a documented, comprehensive internal control system, there is inadequate assurance that goals and objectives are met; resources are used efficiently, effectively, and in compliance with applicable laws, regulations, and policies; assets are safeguarded against potential waste, loss, and misuse; and financial data is maintained, reported, and fairly disclosed in reports. The lack of controls and comprehensive documented policies and procedures resulted in the following issues:

a. Lack of Proper Bidding Procedures

Although the Authority had written policies and procedures in place regarding procurement, the Authority did not advertise or solicit bids or quotes on the following transactions:

- On March 17, 2010, the Maintenance Department purchased various maintenance supplies totaling \$7,375.
- On April 16, 2010, a Ford truck was purchased for the maintenance department for \$26,796.
- On May 27, 2010, 864 window shades and brackets were purchased for new windows being installed at one of the Authority's elderly housing complexes for a total of \$7,593.
- On three occasions, a total of 14 gas water heaters were purchased to replace leased water heaters for a total of \$7,576.

Housing Authorities are required by DHCD to comply with Chapter 30B of the Massachusetts General Laws, the Uniform Procurement Act, which requires competitive bidding practices. The State Inspector General has issued a handbook explaining the requirements of Chapter 30B, which states, in part:

- *Contracts under \$5,000. Use sound business practice.*
- *Contracts between \$5,000 and \$24,999. Seek price quotes from at least three vendors and award the contract to the responsible vendor offering the supply or service needed for the best price.*
- *Contracts of \$25,000 or more. Conduct a formal advertised competition using sealed bids or proposals. In a bid process, you award the contract to the qualified bidder who meets your specifications and offers you the best price. In proposal process, you award the contract to the offeror submitting the most advantageous proposal, taking into consideration your specified evaluation criteria as well as price.*

Moreover, Section 16 of DHCD's Accounting Manual for State-Aided Housing Programs requires the Authority's Board of Commissioners vote to authorize procurement transactions of over \$5,000.

The Authority did not conform to the requirements of Chapter 30B by failing to solicit bids for certain transactions. Moreover, the board did not comply with DHCD guidelines in authorizing these transactions for which proper bidding procedures were not followed. Accordingly, it cannot be assured the Authority received the best possible price for these purchases. The Authority stated that it was not familiar with the requirements of Chapter 30B or Section 16 of the DHCD Accounting Manual.

Recommendation

The Authority should become familiar with and follow the applicable written rules and policies for the procurement of goods and services. The Authority's Executive Director or designee should be certified through the Massachusetts Certified Public Purchasing Official (MCPPO) Program.

Auditee's Response

The Authority is presently developing new written policies and procedures regarding internal controls over financial and management activities. The Housing Authority has a new Executive Director who is familiar with procurement procedures and will follow those procedures to the letter with regard to purchasing and procurement of contractors. The Authority will be sure to have the Board of Commissioners vote to authorize the award of any bid over \$5,000.00. The Authority seeks multiple prices on contracted out work to ensure pricing is competitive and produces the desired result, best service for most economic price. The Authority will comply with the requirements of Chapter 30B and/or Section 16 of the DHCD Accounting Manual along with the Uniform Procurement Act. The Executive Director will be taking the MCPPO training program to better familiarize and certify himself as a MCPPO certified official.

b. Contract Register Not Maintained for Modernization Projects

The Authority did not maintain a contract register for its modernization projects as required by Sections 6 through 8 of DHCD's Accounting Manual, which states that a housing authority is required to maintain a contract register as follows:

A separate contract register must be maintained for each contract in each Program. This register acts as a control over the total amount awarded including subsequent change orders, the amount paid to the contractor, the contract retention and balance due to the contractor. The contract register is especially important under the Modernization Program

where multiple budgetary cost center distributions disallow the costing out of one architect or one contractor to one specific general ledger account.

Because the Authority did not maintain the required contract register, there is inadequate assurance that the contract payments and change orders for the Authority's seven modernization projects were executed in accordance with DHCD regulations.

Recommendation

The Authority should maintain a contract register in compliance with DHCD guidelines for all of its current and future modernization projects.

Auditee's Response

The Authority acknowledges that a Contract Register must be maintained for all Modernization Projects. The Authority will follow DHCD contracting regulations and will maintain a contract register for all Modernization projects moving forward to ensure control over items such as total dollar amount of project, change orders, percentage paid and remaining funds due to contractor to date. This will enable the Authority to track the project from start to finish. The Executive Director [and] the Maintenance Supervisor have DHCD sponsored training scheduled in June to assist with compliance for Modernization Project regulations.

c. Expenditure Controls Need to Be Strengthened

The Authority's internal control procedures regarding the board's oversight and approval of expenditures need to be strengthened. Currently, board members receive monthly warrants with a Vendor Accounting Invoice Transactions Report (VAITR) attached. Actual invoices are not provided with monthly warrants, but according to administrative staff are available for examination upon request. Our review of the board-approved warrants indicated that the total amount of expenditures was written in pencil and could be easily altered, which represents a significant control risk. In addition, the amount that the board approves for warrants is not included in board meeting minutes. The invoices are not attached to the warrants, making it difficult to reconcile VAITR amounts to actual invoices. Moreover, our test of the amounts approved in the warrants for June, July, and August 2010 to the check register of the Revolving Fund Account disclosed that the total amount paid exceeded the amount approved by the Board of Commissioners by \$224,980, as shown in the following chart:

| | <u>June 2010</u> | <u>July 2010</u> | <u>August 2010</u> |
|-----------------------------------|------------------|------------------|--------------------|
| Approved Warrant | \$304,486 | \$425,643 | \$574,090 |
| Transactions Voided | 53,392 | 24,373 | 7,896 |
| Approved Payment | 251,094 | 401,270 | 566,194 |
| Paid But Not Approved | <u>70,588</u> | <u>136,806</u> | <u>17,586</u> |
| Total Payments Per Revolving Fund | <u>\$321,682</u> | <u>\$538,076</u> | <u>\$583,780</u> |

We also found a number of board-approved transactions that were voided without any explanation.

Currently, the Authority uses electronic signatures on checks for payments of the Authority's expenditures and does not require any written acknowledgement by the board regarding transactions paid that are not approved on the monthly warrant. This internal control weakness provides little assurance that the board members actually approved these payments. Proper internal controls would require that members of the board sign the checks after reviewing all supporting documentation.

Recommendation

Sound business practices advocate that board members sign all checks to ensure that expenditures are proper and accurate and that the supporting documentation for all expenditures was approved for payment. These steps would also ensure that the Authority's fiscal affairs and operations are conducted in compliance with applicable laws, rules, and regulations.

Auditee's Response

The Authority now follows proper procedures regarding the Board of Commissioners oversight and approval of expenditures. When the Board of Commissioners meets they are provided with a warrant along with the actual invoices for review to be approved for payment. Commissioners review and if necessary question the Vendor Transaction Report before signing off, permitting the WHA to make payment for services rendered during the month being reviewed. The Authority's bookkeeper is no longer submitting a warrant in pencil. The warrant is now provided in pen and in alphabetical order for ease of review. The total amount paid will be consistent with amount approved by The Board of Commissioners.

d. Improvements Needed in Inventory Controls

Our review of internal controls over inventory determined that improvements were needed to ensure compliance with established procedures. Specifically, the Authority did not have a complete listing of its property and equipment, did not reconcile inventory records to its financial statements, and did not conduct an annual inventory. DHCD's Accounting Manual for State-Aided Housing Programs, Section 15, requires the following inventory procedures:

Furniture and equipment record cards or a computerized list should be established and maintained.

All equipment should be tagged with an assigned asset number.

A physical inventory of all furniture and non-expendable equipment inventory must be taken each year.

The Authority provided us with an inventory list; however, the Authority informed us that it does not conduct an annual inventory. Without an updated inventory list that accurately values the inventory items, the Authority's financial statements will not reflect the correct values for its property, equipment, and assets. Improvements in the Authority's inventory control procedures are necessary to ensure that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

Recommendation

The Authority should ensure that its inventory control procedures are in full compliance with DHCD requirements by establishing a comprehensive inventory listing, tagging all furniture and equipment, conducting a complete physical inventory count annually, and reconciling the inventory to its balance sheet and subsidiary records.

Auditee's Response

The Authority will conduct an annual inventory check. The Authority recognizes the value of having an updated inventory list to value the inventory items on hand for its property, equipment and assets. The Authority will be in full compliance with DHCD requirements regarding inventory.

e. Excessive Payments Made to Tenant Association

The DHCD Accounting Manual and 760 CMR 6.09 stipulate that recognized tenant organizations can receive either \$3 per public housing unit occupied or available for occupancy by residents represented by such Local Tenant Organization, or an annual total of \$250,

whichever is greater. This is dependent upon submission of a budget to DHCD and compliance with applicable tenant participation regulations. The Authority does have an active tenant association at its Lakeview Manor apartment complex, which consists of a total of 189 family units. According to DHCD regulations, the maximum yearly amount that the Authority is allowed to pay the Lakeview Manor Tenant Association is \$567. However, contrary to those regulations, the tenant association was paid a total of \$120,779 from 2007 through 2010, an average of \$30,195 per year. Based on the documentation provided to us by the Authority, we determined that, for the period April 1, 2010 through June 30, 2010, these funds were used primarily for staffing, equipment, and supplies for a computer room at the Lake Manor apartment complex, dues to a national tenant association, and development and grounds maintenance costs. This overpayment of \$118,511 to an active tenant association could have been better utilized by the Authority for needed repairs to the administrative office as detailed in this report, as well as other repairs identified for the benefit of the tenants. The Executive Director gave no explanation as to how and why this amount was included in the approved DHCD budget.

Recommendation

The Authority and DHCD should restrict any tenant organization appropriations to \$567 annually.

Auditee's Response

The Authority recognizes it has historically overpaid the Tenant Association and is resolving the issue with the resident association to bring it in line with DHCD Accounting Manual Standards.

f. Relationship with South Suburban Affordable Housing, Inc.

In 2001, a nonprofit corporation, South Suburban Affordable Housing, Inc., (SSAHI), was established for the purpose of preserving and producing affordable housing in the Town of Weymouth. According to its bylaws, to further its purposes, the SSAHI shall, among other things:

Construct, rehabilitate, acquire, preserve, sell, lease and manage housing in the Town of Weymouth, Massachusetts and other communities in Norfolk and Plymouth Counties, Massachusetts, primarily for the benefit of low, moderate and middle income persons residing or working in those communities where such affordable housing is situated:

Identify abandoned, tax delinquent, foreclosed and other properties for conversion to or preservation as affordable housing units.

During our audit period, the SSAHI's principal address was the same as the Authority's. Moreover, the SSAHI resident agent was the former Executive Director of the Authority, two of the five SSAHI officers and directors were board members of the Authority, and the same legal counsel represented both entities. The SSAHI has no paid employees, and through interviews with Authority staff, it was noted that the previous Executive Director, Assistant Executive Director, and receptionist spent significant time and effort on this endeavor while being paid with Authority funds. The Authority also loaned the SSAHI a \$1,000 application fee to obtain Low-Income Housing Tax Credits. The Authority has received repayment of the loan as well as a \$500 fee for filing the SSAHI's Articles of Incorporation. Also, since its inception, the Authority has provided the SSAHI the use of its resources, such as office space, staff, equipment, and access to telephones. Moreover, there is no agreement in place or cost allocation plan that provides for the reimbursement to the Authority for SSAHI expenses paid with Authority funds.

Recommendation

The Authority should consult with DHCD on how it should handle cost reimbursements associated with payments made and in-kind services to the Authority on behalf of the SSAHI.

Auditee's Response

The Authority will consult with DHCD as to how they should handle cost reimbursement associated with payments made and in-kind services to the Authority on behalf of SSAHI recognizing the benefit the SSAHI has brought to the South Shore over the years.

g. Inadequate Controls over Unpaid Vacated Tenant Balances

Our review of vacated tenant balances showed that these balances were approaching \$100,000. Although the Authority has a formal written collection loss policy in place, it does not follow that policy. The Authority's Collection Loss Policy states, in part:

Vacated tenant accounts receivables which exceed two (2) years may remain on an Authority's books only if the Authority can show just reason for it. Those vacated tenant accounts receivables which are over 18 months old, and are not written off, should be analyzed and a determination be made as to their collectability.

Moreover, the Authority does not have written policies and procedures in place for tenants who vacated with credit balances and are therefore owed refunds. Accordingly, the Authority has not returned vacated tenant balances in a timely manner. In addition, all board-approved write-offs have not been recorded.

Our testing of potential vacated tenant refunds, vacated tenant accounts receivable, and board-approved write-offs of the Authority's outstanding accounts receivable indicated the following:

| <u>YEAR</u> | <u>POTENTIAL VACATED TENANT REFUNDS</u> | | <u>VACATED TENANT ACCOUNTS RECEIVABLE</u> | | <u>UNADJUSTED BOARD- APPROVED WRITE-OFFS</u> | |
|--------------|---|----------------|---|-----------------|--|---------------|
| | <u>No. of Tenants</u> | <u>Amount</u> | <u>No. of Tenants</u> | <u>Amount</u> | <u>No. of Tenants</u> | <u>Amount</u> |
| 2010 | 6 | \$195 | 20 | \$17,531 | - | - |
| 2009 | 3 | 409 | 13 | 43,797 | - | - |
| 2008 | 16 | 1,455 | 16 | 15,716 | - | - |
| 2007 | 4 | 244 | 17 | 14,872 | - | - |
| 2006 | 1 | 34 | 4 | 4,801 | 1 | \$120 |
| 2005 | 12 | 907 | - | - | - | - |
| 2004 | 7 | 628 | - | - | - | - |
| 2003 | 7 | 2,089 | 1 | 3 | - | - |
| 2002 | 4 | 340 | - | - | 1 | 407 |
| 2001 | 6 | 56 | - | - | - | - |
| 2000 | 2 | 55 | - | - | - | - |
| 1999 | 6 | 531 | - | - | - | - |
| 1998 | 5 | 342 | - | - | - | - |
| 1997 | <u>2</u> | <u>413</u> | - | <u>-</u> | - | <u>-</u> |
| TOTAL | <u>81</u> | <u>\$7,698</u> | <u>71</u> | <u>\$96,720</u> | <u>2</u> | <u>\$ 527</u> |

Recommendation

The Authority should review its policies, procedures, and relevant applicable statutes in order to make aggressive and timely collections, and research potential refunds to ensure their accuracy. It is essential that board members be more aware of tenant balances, analyze them more frequently, and take necessary action to determine their validity.

Auditee's Response

The Authority is presently reviewing an updated printout to analyze the information and put together a plan to make timely and aggressive collections, and reimbursements based on accurate information. We will be developing written policies and procedures regarding this issue. The Authority recognizes the importance of this issue.

h. Lack of Supervisory Signatures on Timesheets

Our audit disclosed that the Authority lacked adequate controls over its payroll procedures by not requiring supervisory approval of timesheets. Specifically, we found that eight administrative employees' timesheets and 11 maintenance employees' timesheets lacked supervisory approval. A supervisor's signature on a timesheet provides verification that an employee's reported work hours are correct and ensures that employees are paid for the proper amount of hours worked. Section 8 of the DHCD Accounting Manual requires local housing authorities to observe certain fundamental internal control requirements, including the use of forms, documents, and procedures that facilitate control and provide for proper approvals.

Recommendation

The Authority should strengthen its controls over payroll by requiring a supervisory sign-off of timesheets in order to verify that employees worked the hours stated.

Auditee's Response

The Authority has changed its protocol with regard to timesheets. All employee time sheets are now reviewed and signed by each individual's supervisor then by the Executive Director to verify that employees worked hours stated.

i. Noncompliance with Policies and Procedures over Petty Cash

Our review indicated that the Authority's petty cash fund policies and procedures were not being adhered to. Specifically, these policies stipulate a \$50 fund balance, but the Authority had a total of \$500 in the fund (\$200 at the Lakeview Family Development and \$300 at the Authority's administrative offices). Moreover, only \$200 of the \$500 balance was noted on the Authority's general ledger.

Recommendation

The Authority should determine its petty cash fund needs, accurately maintain and reflect the amount of petty cash, periodically reconcile the balance to the general ledger, and have the balance properly reflected on its financial statements.

Auditee's Response

The Authority now has \$50 maximum Petty Cash in accordance with our policy. We will maintain a petty cash ledger to track it more effectively.

j. Unauthorized Access to and Disclosure of Authority Records

During our review, we found that certain confidential personal information regarding an Authority employee was accessed, compromised, and made available to a tenant. Accessing and disseminating official and/or confidential records without authorization is inappropriate, potentially in violation of laws and regulations, and constitutes an invasion of privacy. The Authority has a duty to its employees to safeguard and secure official and confidential records, and avoid potential litigation for damages as a result of violations thereof.

Recommendation

The Authority should consult with DHCD to obtain relevant regulations, provide training to staff in this regard, and establish an overall Code of Conduct. Each employee should be required to sign-off and acknowledge the receipt of training and related instructional materials that include the ramifications of violating Authority policy.

Auditee's Response

The Authority will consult DHCD to obtain relevant regulations and provide training to staff in this regard. We will establish an overall Code of Conduct and have each employee sign off that they have received the training, and pledge not to disclose information.

k. Inadequate Security over Tenant and Bank Account Information

We determined that the Authority is not in compliance with 705 CMR 8.04, which states that a holder of records shall take all reasonable measures to protect personal data from physical damage or removal. Specifically, we determined that the Authority does not keep all tenant files and applications in a locked filing cabinet, potentially compromising private and confidential

information. Tenant files include private information, such as copies of Social Security cards, birth certificates, medical information, etc., that should be secured at all times.

In addition, although the Authority uses a check reader to process tenant payments and other payments electronically, upon the completion of scanning checks through the check reader, the Authority stores the checks in an unlocked file cabinet, potentially compromising tenants' banking information. This banking information includes important financial data that could be used for identity fraud and could cause a financial loss to tenants.

Recommendation

The Authority is the keeper of tenant records and is responsible for securing this confidential information. Accordingly, the Authority should ensure that all tenant files are kept in locked file cabinets in a secured building. In addition, the Authority should establish a policy for the destruction and/or safekeeping of checks that have been processed through the check reader.

Auditee's Response

The Authority will ensure that all tenant files are kept in a locking cabinet. We will put a plan in place to destruct or safe keep checks that have been processed. Building security has been reviewed and resolved.

I. Inadequate Controls over Credit Card Expenditures

We found that the Authority lacked sufficient internal controls over expenditures made with the Authority's credit card. During our testing of credit cards, the Authority provided us with a listing of personnel authorized to utilize Authority credit cards/charge accounts. We reviewed 268 credit card transactions totaling \$73,533 that were paid during our audit period and found that 200 (75%) of these transactions, totaling \$53,906, were not adequately documented to justify the expenditure as a business transaction.

In addition, we determined that one of the individuals authorized to use the credit cards was an outside contractor hired by the Authority for the purpose of repairing/replacing flooring and tiling. The Authority authorized the outside contractor to use the credit card to obtain material for work purportedly performed at the Authority. Because there was insufficient supporting documentation for these transactions, it could not be demonstrated that the total amount and the number of transactions made by the outside contractor were applicable to the Authority or that there was proper oversight of the outside contractor.

Our audit further disclosed that the Authority does not have a policy to regulate the use of its credit cards. Without adequate controls requiring proper documentation, review, and approval by the Board of Commissioners for expenditures made on the Authority's credit cards, there is inadequate assurance that the Authority's credit cards are safeguarded against possible misuse or impropriety.

DHCD's Accounting Manual for State-Aided Housing Programs, Section 8, states that when checks are submitted for signature, a voucher along with supporting documents should be presented.

Recommendation

The Authority should establish policies and procedures to control access to and use of credit cards, as well as ensure that all credit card transactions are accompanied by proper documentation, used only for Authority-related expenses, and approved by the Board of Commissioners.

Auditee's Response

The Authority has cancelled the one actual credit card they possessed. We presently have no credit cards. The Authority does have multiple open accounts at local stores to purchase material and supplies. There has been a heavy emphasis with the new Executive Director that no material is purchased without prior approval and no bills are paid without signed receipts from person receiving materials. All moneys are charged to the location receiving the material purchased. We are . . . keeping minimal material on shelves at each location based on size and need at each development. No outside contractor will be permitted to purchase material on the WHA's behalf. Any and all routine purchases must be approved by the Executive Director; anything over \$5,000.00 will need approval of the Board of Commissioners.

m. Inappropriate Commingling of Funds

The Authority commingled funds collected from various sources totaling \$1,980 into its Revolving Fund Account. The purpose of the funds collected was for a retirement party for the former Executive Director. The Authority then authorized a payment of \$1,659 in Revolving Fund Account revenue to an employee as reimbursement for charges made for this party.

DHCD's Accounting Manual, Section 15A, states, "A Revolving Fund is a fund that is set up with a separate bank account and a separate general ledger to facilitate the payment of common

expenses of an LHA [Local Housing Authority] that has more than one type of housing program.”

Recommendation

The Authority should develop policies and procedures for funds that are not intended for the business purpose of the Authority and follow the DHCD Accounting Manual in the use of its Revolving Fund.

Auditee's Response

The Authority will follow DHCD's Accounting Manual regarding the use of our Revolving Fund.

n. Inadequate Governance, Oversight, and Monitoring Procedures

The various issues identified in this review resulted from a breakdown of the systems of internal controls, checks, and balances (i.e., governance) that should be in place and exercised by the Authority, including its Board of Commissioners, in fulfilling its fiduciary responsibilities to set policy, give direction, and monitor and oversee the activities and affairs of the Authority. This responsibility is intended to ensure that the Authority's financial operations are conducted in compliance with applicable laws, rules, and regulations. Generally accepted government accounting standards exist in part to ensure that officials and employees who manage public funds and programs render a proper accounting of their stewardship so that the public can be assured that the resources these officials are entrusted with are responsibly handled and that there is limited risk or likelihood of errors or irregularities going undetected.

Chapter 121B, Section 7, of the General Laws provides the statutory authority for board members to fulfill their responsibilities by allowing the board to delegate to one or more of its members such powers and duties as it deems necessary as proper for the carrying out of any action determined upon it.

Recommendation

The board should develop procedures to better monitor and control Authority activities. As part of this organizational oversight, the board should seek guidance from its Fee Accountant and DHCD.

Auditee's Response

The WHA Board of Commissioners will develop procedures to better monitor and control Authority activities. The Board will interact more with the . . . [fee accountants] along with DHCD to improve the oversight of the Authority.