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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
HULL HOUSING AUTHORITY
MAY 1, 2005 TO DECEMBER 31, 2007**

**OFFICIAL AUDIT
REPORT
DECEMBER 17, 2008**

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INTRODUCTION

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Hull Housing Authority for the period May 1, 2005 to December 31, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2005-0683-3A).

Based upon our review, we have concluded that, except for the issues addressed in the Audit Results section of the report, during the 32-month period ended December 31, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED

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Our prior audit report on the Hull Housing Authority (No. 2005-0683-3A) disclosed certain areas in need of improvement, including (a) maintenance of board meeting minutes; (b) controls over payroll expenditures; (c) authorization and documentation of disbursements; (d) personnel policies; and (e) tenant accounts receivable. Our follow-up review revealed that the Authority has adequately addressed these issues, as follows:

a. Board Meeting Minutes

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Our prior audit reported that the Authority did not maintain complete board meeting minutes, contrary to Department of Housing and Community Development (DHCD) regulations. In addition, the prior audit noted that the Authority did not fully comply with the requirements of Chapter 39, Section 23B, of the General Laws when convening meetings in executive session. Our follow-up review of the board meeting minutes determined that in March 2006, the Authority began maintaining complete board meeting minutes. In addition, we noted that the Authority is now complying with the provisions of Chapter 39, Section 23B, of the General Laws.

b. Controls over Payroll Expenditures

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Our prior audit found that the Authority's Executive Director (a) was operating without a contract since his appointment; (b) had a 24-hour work week and was paid \$1,351 in overtime for performing maintenance duties while a maintenance employee was on vacation; (c) was paid \$37,378 in lieu of employee benefits without documentation of DHCD or board approval; and (d) received additional compensation of \$7,000 for the administration of two modernization projects that could not be reconciled to supporting documentation. Our follow-up

review of the Authority's system of payroll controls determined that the Authority has taken corrective action to ensure adequate control over payroll expenditures.

c. Authorization and Documentation of Disbursements **4**

Our prior audit found that the Authority's internal control system did not reliably afford its board the opportunity to monitor all disbursements. Our follow-up review of the Authority's disbursements revealed that cash disbursements were budgeted, allowable, adequately supported, and approved by the Authority's board at its monthly meeting.

d. Personnel Policies **4**

Our prior audit determined that, contrary to the terms of DHCD's Contract for Financial Assistance, the Authority had incomplete personnel policies on file and was unable to document additions or deletions to its personnel policies. In addition, the prior audit report disclosed deficiencies in the Authority's maintenance of timesheet and accumulated vacation time records. Our follow-up review determined that the Authority has updated its personnel policies, which are now complete and current.

e. Uncollectible Tenant Accounts Receivable **4**

Our prior audit revealed that the Authority did not actively monitor accounts due from tenants and might have experienced potential revenue losses as a result of uncollected rents. The prior report recommended that the Authority identify any tenant accounts receivable that are uncollectible and make the proper accounting entries as prescribed in DHCD's Accounting Manual. Our follow-up review determined that the Authority has identified uncollectible tenant accounts receivable and has established an allowance for doubtful accounts as required by Generally Accepted Accounting Principles. However, as discussed in Audit Result No. 4, our review noted other internal control weaknesses over tenant accounts receivable.

2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED **5**

Our prior report also noted that the Authority did not (a) properly maintain its tenant selection ledgers and (b) make all required annual payments in lieu of taxes (PILOT) to the Town of Hull. Our follow-up review indicated that these issues remained unresolved, as discussed below.

a. Required Tenant Selection Ledgers Not Maintained **5**

Our prior audit found that, contrary to 760 Code of Massachusetts Regulations 5.00, the Authority did not properly maintain its Master Ledger and Waiting List Ledgers. As a result, there was inadequate assurance that eligible tenants were selected in the proper order for housing. Our follow-up review determined that the Authority was in the process of updating its Master Ledger and Waiting List Ledgers utilizing Public Housing Authority Network software. In its response, the Authority indicated that corrective action has been taken to properly maintain the Authority's waiting list(s).

b. Payments In Lieu of Taxes Not Made **5**

Our prior audit found that, over an eight-year period, the Authority had not made annual payments in lieu of taxes (PILOT) to the Town of Hull, contrary to a March 1997 PILOT agreement with the town in which the Authority agreed to pay \$1,008 annually. As a result, the town was owed \$8,064 as of April 30, 2005.

Our follow-up review revealed that the Authority still had not made payments in lieu of taxes to the Town of Hull for prior and current amounts due. As a result, the town was owed \$10,080 in past-due PILOT payments as of December 31, 2007. In its response, the Authority indicated that discussions were held with the Hull Town Manager to commence payments on a regular basis in 2008.

3. EXCESSIVE DELAYS IN RENTING VACANT UNITS RESULTING IN POTENTIAL RENTAL INCOME LOSSES OF APPROXIMATELY \$16,529 **6**

Our audit disclosed that during the audit period, the Authority might have lost the opportunity to earn approximately \$16,529 in potential rental income from state-aided housing programs because its vacant units were not reoccupied within the 21-day timeframe established by DHCD. The Executive Director stated that the units were not filled because the Authority has only one maintenance person and that, as the Authority was unable to obtain any outside contractors to assist with the refurbishing of the units, the maintenance employee's everyday responsibilities precluded his working on preparing vacant units for reoccupancy. In its response, the Authority indicated that it is working with DHCD in placing units back on line in a more timely fashion. Furthermore, the Authority stated that it is now utilizing the vacancy on-line system in HAFIS which allows DHCD to closely monitor its vacancies.

4. WEAKNESSES IN INTERNAL CONTROLS OVER TENANT ACCOUNTS RECEIVABLE **7**

Our review of the tenant accounts receivable balance determined that the reported receivable balance has increased by \$37,333, or 287%, since our last audit, from \$12,977 (March 31, 2005) to \$50,310 on December 31, 2007. Our audit further noted that the Authority has not adopted and implemented a written collection policy for its tenants accounts receivable. Moreover, we found that the tenant subsidiary records were not reconciled to the control account to ensure the accuracy of its stated balances. Our review determined that a variance of \$969 existed between the control account and the subsidiary ledger as of December 31, 2007.

The Executive Director stated that, prior to her employment on April 2006, monthly rent rolls used to control receivable balances and tenant accounts receivable ledgers were either not maintained or non-existent, and that the Authority had a history of not being aggressive in collecting rents. She further stated that records had to be reconstructed from information contained in the tenant files, and that the Authority has evicted five tenants and made repayment agreements with six active tenants.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Hull Housing Authority for the period May 1, 2005 to December 31, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate its compliance with laws, rules, and regulations applicable to each program.

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

To achieve our audit objectives, we reviewed the following:

- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with Department of Housing and Community Development (DHCD) regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Property and equipment inventory control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD regulations.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash management and investment policies and practices to verify that the Authority maximized its interest income and its deposits were fully insured.
- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.

- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior report (No. 2005-0683-3A), which covered the period January 1, 2002 to April 30, 2005.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 32-month period ended December 31, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

Our prior audit report on the Hull Housing Authority (No. 2005-0683-3A) disclosed certain areas in need of improvement, including (a) maintenance of board meeting minutes; (b) controls over payroll expenditures; (c) authorization and documentation of disbursements; (d) personnel policies; and (e) tenant accounts receivable. Our follow-up review revealed that the Authority has adequately addressed these issues, as follows:

a. Board Meeting Minutes

Our prior audit noted that the Authority did not maintain complete board meeting minutes, contrary to Department of Housing and Community Development (DHCD) regulations. Specifically, the Authority could document only 15 board meetings over the 40-month audit period. In addition, the report noted that the board did not fully comply with the provisions of Chapter 39, Section 23B, of the Massachusetts General Laws when convening its executive sessions.

Our follow-up review of the board meeting minutes determined that in March 2006 the Authority began maintaining complete board meeting minutes. In addition, we noted that the Authority was now complying with the provisions of Chapter 39, Section 23B, of the General Laws regarding documentation of and procedural requirements for executive session meetings.

b. Controls over Payroll Expenditures

Our prior audit found that the Authority's Executive Director (a) was operating without a contract since his appointment; (b) was improperly paid \$1,351 in overtime for performing maintenance duties while a maintenance employee was on vacation; (c) was paid \$37,378 in lieu of employee benefits without documentation of DHCD or board approval; and (d) received additional compensation of \$7,000 for administration work on two modernization projects that was not supported by any timesheet records.

Our follow-up review of the Authority's system of payroll controls determined that the Authority has taken corrective action to ensure adequate control over payroll expenditures, which are now reviewed and approved by the Authority's board. Moreover, the Authority

terminated the services of the Executive Director in question and has hired an interim Executive Director.

c. Authorization and Documentation of Disbursements

Our prior audit found that the Authority's internal control system did not reliably afford its board the opportunity to monitor all disbursements. Moreover, our previous audit disclosed several Authority cash disbursements that were unbudgeted, unallowable, or inadequately supported.

Our follow-up review revealed that cash disbursements were budgeted, allowable, adequately supported, and approved by the Authority's board at its monthly meetings.

d. Personnel Policies

Our prior audit determined that, contrary to the terms of DHCD's Contract for Financial Assistance, the Authority had incomplete personnel policies on file and was unable to document additions or deletions to its personnel policies. In addition, the prior audit report disclosed deficiencies in the Authority's maintenance of timesheet and accumulated vacation time records. The Authority is required by the terms of DHCD's Contract for Financial Assistance to have an approved Management Plan which includes personnel regulations.

Our follow-up review determined that this issue has been resolved. Specifically, on March 12, 2008 the Authority's board approved an updated personnel manual.

e. Uncollectible Tenant Accounts Receivable

Our prior audit revealed that the Authority did not actively monitor accounts due from tenants and that, accordingly, it might experience potential revenue losses as a result of uncollected rents. The report recommended that the Authority identify any tenant accounts receivable that are uncollectible and make the proper accounting entries as required in Generally Accepted Accounting Principles (GAAP).

Our follow-up review determined that the Authority has identified uncollectible tenant accounts receivable and has established an allowance for doubtful accounts as required by GAAP. However, as discussed in Audit Result No. 4, our review noted other additional internal control weaknesses over tenant accounts receivable.

2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED

Our prior report also noted that the Authority did not (a) properly maintain its tenant selection ledgers and (b) make all required annual payments in lieu of taxes (PILOT) to the Town of Hull. Our follow-up review indicated that these issues remained unresolved, as discussed below.

a. Required Tenant Selection Ledgers Not Maintained

Our prior audit found that, contrary to 760 Code of Massachusetts Regulations 5.00, the Authority did not properly maintain its Master Ledger and Waiting List Ledgers. As a result, there was inadequate assurance that eligible tenants were selected in the proper order for housing. Our follow-up review determined that the Authority was in the process of updating its Master Ledger and Waiting List Ledgers utilizing Public Housing Authority Network software.

Recommendation

The Authority should continue to update and maintain its Master Ledger and Waiting List Ledgers to ensure that eligible housing applicants are placed in state-aided housing units in the proper order in conformity with 760 CMR 5.00.

Auditee's Response

In response to this issue, the Authority stated, in part:

As stated in the audit, at the time of the audit the Authority was in the process of updating its waiting list. However, we wish to have it noted that the current administration had opened the family waiting list in the summer of 2006 as the previous administration had closed the list without authorization. We had also updated the elderly/disabled list at that time. We have now completed the 2008 update and it is in the PHA Network system.

b. Payments In Lieu of Taxes Not Made

Our prior audit found that, over an eight-year period, the Authority had not made payments in lieu of taxes (PILOT) to the Town of Hull, contrary to a March 1997 PILOT agreement with the town in which the Authority agreed to pay \$1,008 annually. As a result, the town was owed \$8,064 as of April 30, 2005.

Our follow-up review revealed that the Authority still had not made payments in lieu of taxes to the Town of Hull for prior and current amounts due. As a result, the town was owed \$10,080 in past-due PILOT payments as of December 31, 2007.

DHCD's Accounting Manual for State-Aided Housing Programs states that General Ledger Account 4520 (PILOT Expense) should be charged and Account 2137 [accrued PILOT] credited with all payments in lieu of taxes accruing to a municipality or other local taxing body. The Authority's approved budget has included a line item for PILOT payments.

Recommendation

The Authority should follow DHCD guidelines and comply with the terms of its PILOT agreement with the Town of Hull.

Auditee's Response

In response to this issue, the Authority stated, in part:

We have been in discussion with the Town Manager regarding this matter and all have agreed to make the payments on a regular basis starting in 2008. We also agreed to pay the past eight years of payments as the budget allows.

3. EXCESSIVE DELAYS IN RENTING VACANT UNITS RESULTING IN POTENTIAL RENTAL INCOME LOSSES OF APPROXIMATELY \$16,529

Our audit disclosed that during the audit period, the Authority might have lost the opportunity to earn approximately \$16,529 in potential rental income from state-aided housing programs because its vacant units were not reoccupied within the 21-day timeframe established by DHCD. We found that, of the 13 elderly units that became vacant during the audit period, six units were refurbished within the 21 days allowed, whereas seven units were vacant for periods ranging from two to 363 days. In addition, we found that, of the six family units that became vacant, one unit was refurbished within the 21-day allowance, three units had excess delays ranging from 42 to 249 days, and two units were taken off-line for modernization work to be completed. DHCD's Property Maintenance Guide, effective January 1, 1991, states that a "reasonable target for average vacancy is 21 working days."

The Executive Director stated that the units were not filled because the Authority has only one maintenance person, and that because the Authority was unable to obtain any outside

contractors to assist with the refurbishing of the vacant units, the maintenance employee's everyday responsibilities precluded his working on preparing the vacant units for reoccupancy.

Recommendation

The Authority should comply with DHCD regulations by ensuring that units are reoccupied within DHCD timeframe. In addition, the Authority should consider petitioning DHCD for the funds necessary to hire additional maintenance personnel and fulfill their respective statutory mandates.

Auditee's Response

In response to this issue, the Authority stated, in part:

We are working with DHCD to try and be more efficient in placing our units back on line in a more timely fashion. We are now utilizing the vacancy on-line system in HAFIS which allows DHCD to closely monitor our vacancies.

4. WEAKNESSES IN INTERNAL CONTROLS OVER TENANT ACCOUNTS RECEIVABLE

Our review of the Authority's Program 400-1 tenant accounts receivable balance determined that the reported receivable balance had increased by \$37,333, or 287% since our last audit, from \$12,977 (March 31, 2005) to \$50,310 on December 31, 2007. A review of the December 31, 2007 subsidiary balances revealed that \$41,161, or 82%, was owed by 11 individuals, consisting of five former tenants who had vacated (\$29,604) and six active tenants (\$11,557). The balances of these accounts ranged from \$1,031 to \$8,665.

In addition, we noted that the Authority has not adopted and implemented a written collection policy for its tenant accounts receivable. Moreover, we found that the tenant subsidiary records were not reconciled to the control account to ensure the accuracy of its stated balances. Our review determined that a variance of \$969 existed between the control account and the subsidiary ledger as of December 31, 2007.

The Authority's Executive Director, whose employment commenced in April 2006, stated that prior to her employment, monthly rent rolls used to control receivable balances and tenant accounts receivable ledgers were either not maintained or non-existent, and that the Authority had a history of not being aggressive in collecting rents. She further stated that records had to be reconstructed from information contained in the tenant files.

DHCD's Accounting Manual requires local housing authorities to establish separate records for tenant rent collections and stresses the importance of establishing and maintaining a system (such as a monthly rent roll and cash receipts summary) that would ensure that all postings to individual tenant records are made. DHCD also requires local housing authorities to adopt and implement an aggressive rent collection policy.

Recommendation

The Authority should:

- Adopt and implement a formal policy of aggressively pursuing tenants with amounts owed and collecting amounts as they become due;
- Perform a reconciliation of tenant subsidiary accounts to the control account each month to ensure the accuracy of records and reporting, and to identify discrepancies in a timely manner; and
- Write-off accounts deemed uncollectible once all legal efforts have been exhausted.

Auditee's Response

In response to this issue, the Authority stated, in part:

As stated in the report the prior administrations records were practically nonexistent. As a result we spent months trying to reconstruct what each tenant owed and that precipitated five evictions, at that time we also made repayment agreements with six active tenants in the Brockton Housing Court. At this time all residents except one are current with their rent. The one that is not is making payments as instructed by the Courts. The vacated tenants have all been in the Court system.