



# The Commonwealth of Massachusetts

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

**OFFICIAL AUDIT  
REPORT  
NOVEMBER 3, 2008**

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### INTRODUCTION

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Cohasset 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.

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. Also, as discussed in the Audit Results section of our report, the Authority has initiated action to address the issues disclosed in our prior audit report.

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### AUDIT RESULTS

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#### PRIOR AUDIT RESULTS RESOLVED

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Our prior audit (No. 2005-0636-3A) of the Cohasset Housing Authority disclosed that the Authority (a) lacked adequate inventory controls, (b) did not pay its electric bill each month, (c) did not issue IRS Form 1099-MISC to a carpenter for services rendered, and (d) lacked adequate controls over payroll. Our follow-up audit disclosed that the Authority has taken corrective action to address these issues, as discussed below:

#### **a. Inventory Controls Established**

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Our prior audit found that the Authority lacked adequate controls over inventory records and procedures, and as a result, did not have a complete listing of its property and equipment, did not reconcile its inventory records to the Authority's financial statements, and did not conduct an annual inventory. Our follow-up review determined that the Authority has taken corrective action and has established an adequate control system for the inventory of furniture and equipment.

#### **b. Utility Bills Paid**

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Our prior audit found that the Authority did not pay its electric bill each month despite having funds budgeted and approved for this expenditure, which resulted in an accumulated liability in the amount of \$91,900, including interest charges of \$9,027. Our follow-up review determined that the Authority took corrective action and paid off its outstanding balance to the electric company.

#### **c. Form 1099 Filed with the Internal Revenue Service**

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Our prior audit found that the Authority did not issue an Internal Revenue Service (IRS) Form 1099-MISC to a contractor who was paid \$1,225 for carpentry services in calendar year 2004. Our follow-up review determined that the Authority complied with IRS regulations and correctly issued Form 1099s during subsequent calendar years.

**d. Timesheets Approved by Supervisors**

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Our prior audit disclosed that the Authority lacked adequate controls over payroll, and as a result, management did not sign the maintenance employee's timesheets during the period December 1, 2004 to June 30, 2005. Our follow-up review determined that the Authority has taken corrective action and implemented adequate controls to ensure that timesheets are properly signed.

## INTRODUCTION

### *Audit Scope, Objectives, and Methodology*

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Cohasset 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:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with contract provisions and that rental charges by landlords were consistent with established rules and regulations.

- Cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- 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.
- 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.
- The Authority's progress in addressing the issues noted in our prior report (No. 2005-0636-3A), which covered the period December 1, 2002 to April 30, 2005.

Based on our review, we have concluded that, except for those 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. Also, as discussed in the Audit Results section of our report, the Authority has initiated action to address the issues disclosed in our prior audit report.

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## AUDIT RESULTS

### STATUS OF PRIOR AUDIT RESULTS

Our prior audit (No. 2005-0636-3A) of the Cohasset Housing Authority disclosed that the Authority (a) lacked adequate inventory controls, (b) did not pay its electric bill each month, (c) did not issue IRS Form 1099-MISC to a carpenter for services rendered, and (d) lacked adequate controls over payroll. Our follow-up audit disclosed that the Authority has taken corrective action address these prior issues, as discussed below:

#### a. Inventory Controls Established

Our prior audit found that the Authority lacked adequate internal controls over inventory records and procedures. Specifically, the Authority did not have a complete listing of its property and equipment, did not reconcile its inventory records to the Authority's financial statements, and did not conduct an annual inventory.

The Department of Housing and Community Development (DHCD) Accounting Manual for State-Aided Housing Programs, Sections 15.5 through 15.10, requires the following inventory procedures:

- A formal system for the inventory of furniture and equipment be established by program for all LHAs (local housing authorities). The inventory will be composed of two separate parts; a capital inventory, which will include furniture and equipment costing \$5,000 or more, which will be capitalized and depreciated, and a non-capital control inventory for all items expensed at purchase but costing \$1,000 or more (refrigerators and stoves are to be included regardless of price). Authorities may have lower thresholds but not higher.
- A tag shall be affixed securely on an easily accessible surface of each item recorded. Each tag will display the housing authority's name as well as numerical figure. The issuance of tags will be controlled by the accounting department and must be reserved for each item at the time of ordering equipment.
- A physical inventory of all furniture and non-expendable equipment must be taken and an inventory list maintained each year. Physical inventory results must be compared to LHAs' equipment record and any differences and discrepancies will be reviewed by the LHAs for possible adjustments.

Our follow-up review determined that the Authority has taken corrective action and has established an adequate control system for the inventory of furniture and equipment. Our

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review of the inventory control system revealed that the Authority did have an up-to-date inventory listing, has properly tagged its equipment, and has conducted annual inspections. Based on this remedial action, we believe that the Authority has taken adequate steps to comply with DHCD's requirements pertaining to inventory controls.

**b. Utility Bills Paid**

Our prior audit found that the Authority did not pay its electric bill each month despite having funds budgeted and approved for this expenditure. The Authority, by not fully paying its electric bills each month during a 36-month period, accumulated an outstanding liability to the utility company amounting to \$91,900 as of June 30, 2005. As a result, the Authority was assessed interest charges amounting to \$9,027 by the utility company for the three-year period.

Our follow-up review determined that the Authority has taken corrective action and has paid its utility bills in full each month. DHCD's Budget Guidelines state, "budgets are financial plans that describe how the LHAs are to be financed during the coming year. A housing authority's budget is the document through which its financial resources are managed. When DHCD approves an Authority's budget, it is understood that the established budget limits will accurately represent how the Authority will conduct its business and manage its resources." Our current review of expenses revealed that the Authority received adequate funding from DHCD to pay off its outstanding electric bill and continues to pay its utility bills in full each month.

**c. Form 1099 Filed with the Internal Revenue Service**

Our prior audit found that the Authority did not issue an Internal Revenue Service (IRS) Form 1099-MISC to a contractor who was paid \$1,225 for carpentry services in calendar year 2004. IRS regulations require entities to prepare and file a Form 1099-MISC regarding income information for each non-employee paid over \$600, detailing the name of each individual contractor, the contractor's federal reporting number, and the amount paid to the contractor. By not issuing a Form 1099 to the contractor, the Authority may have subjected itself to interest and penalties for not complying with IRS regulations.

Our follow-up review determined that the Authority has taken corrective action and has properly filed Form 1099s.

**d. Timesheets Approved by Supervisors**

Our prior audit disclosed that the Authority lacked adequate controls over payroll, and as a result, management did not sign the maintenance employee's timesheets during the period December 1, 2004 to June 30, 2005. A supervisor's signature on a timesheet provides verification that an employee's reported work hours are correct, and that employees are paid for the proper amount of hours worked.

Our follow-up review determined that the Authority has taken corrective action and implemented adequate controls to ensure that timesheets are properly signed.