



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

Making government work better

Official Audit Report – Issued June 8, 2011

Grafton Housing Authority

For the period July 1, 2008 to August 31, 2010



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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 Grafton Housing Authority for the period July 1, 2008 through August 31, 2010. The audit was conducted at the request of the Authority's Board of Directors following the retirement of the former Executive Director and Administrative Assistant and the hiring of a new Executive Director. The objectives of our audit were to review and analyze the Authority's management controls and practices over certain areas and functions for the purpose of determining their adequacy and review its compliance with laws, rules, and regulations. We also conducted a follow-up review of the Authority's progress in addressing the issue noted in our prior audit report (No. 2009-0666-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 26-month period ended August 31, 2010, 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 RESULT UNRESOLVED - VACANT UNITS NOT REOCCUPIED WITHIN DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT GUIDELINES

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The Department of Housing and Community Development (DHCD) Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. However, our prior report disclosed that the Authority's average turnaround time for vacant units was 34 days. We recommended that the Authority ensure that vacant units are refurbished and reoccupied within DHCD's timeframe and that DHCD provide the Authority with the funds necessary to fulfill its statutory mandate. Our follow-up review found that the average turnaround time for vacant units had increased to 71 days, resulting in a lost opportunity to earn approximately \$13,610 in potential rental income. The Authority indicated that many of the vacant units, especially those in the elderly housing apartments needed substantial renovations before they could be reoccupied. Furthermore, although the Authority indicated that it received a number of rejections which has delayed the process for filling units, we found only one documented rejection during our audit.

2. INTERNAL CONTROLS OVER CERTAIN ADMINISTRATIVE FUNCTIONS NEED STRENGTHENING

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Our review identified that the Authority needs to strengthen its internal controls over certain administrative functions, including (a) petty cash, (b) pet deposits, (c) inventory control, (d) rent determination, and (e) tenant transfers, as follows:

a. Petty Cash **4**

The Authority established a \$200 Petty Cash Fund used for the payment of minor expenses. However, our review of the Authority's financial statements noted that the Authority does not reflect the account in the Authority's General Ledger or on its financial statements. Proper controls over and documentation of petty cash fund expenditures are necessary to ensure that funds are accurately accounted for and used for proper purposes.

b. Pet Deposits **4**

We found that the Authority was not complying with DHCD regulations for maintaining pet deposits. Specifically, we found that although pet deposits are maintained in separate interest-bearing accounts, the Authority did not retain a subsidiary ledger to document the names of tenants who paid a pet deposit. DHCD Guidelines establish a minimum deposit amount, and also delegate responsibility for record keeping of pet information and receipt of deposits to Authority management. As of June 30, 2010, the pet deposits account had a balance of \$4,424 on the Authority's financial statements.

c. Inventory Control **5**

Our audit found that the Authority did not maintain a complete, up-to-date inventory listing of its furniture and nonexpendable equipment and could not provide us with a physical inventory that was taken for the audit period. The Authority received donated inventory items and purchased additional items during the audit period that were put into use at the Authority; however, these items were not tagged or recorded on the Authority's inventory listing. Without an inventory list verified annually, there is inadequate assurance that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

d. Rent Determination **5**

Our audit found that a tenant was compensated by the Authority for cleaning and maintenance services performed during the period June 1, 2008 to August 31, 2010 totaling \$12,896. The tenant was issued the required tax forms pursuant to this income; however, the Authority did not include this income in the tenant's two rent calculations for those years. As a result, the Authority lost the opportunity to earn approximately \$2,688 in potential rental income.

e. Tenant Transfers **6**

During our review of the Authority's tenant selection procedures for housing, we noted that a tenant was over-housed in a three-bedroom apartment in the family program, and was subsequently transferred by the former Executive Director to a one-bedroom apartment in the elderly program. DHCD does allow for transfers when tenants are over-housed; however, tenants must be eligible for the housing to which they are being transferred. The tenant in question did not meet the eligibility requirement for the elderly housing program and therefore should not have been transferred.

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 Grafton Housing Authority for the period July 1, 2008 through August 31, 2010. The audit was conducted at the request of the Authority's Board of Directors following the retirement of the former Executive Director and Administrative Assistant and the hiring of a new Executive Director. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) DHCD-approved budgets versus actual expenditures; (2) level of need for operating subsidies and operating reserves; (3) administration of development funds to determine, among other items, the existence of excess funds; (4) cash management and investment practices; (5) preparation and reoccupation of vacant units; (6) the Massachusetts Rental Voucher Program; (7) inventory controls over property and equipment; (8) tenant selection; (9) rent determinations; (10) collectability of accounts receivables; (11) disbursements; (12) payroll, travel and fringe benefits; (13) site inspections; and (14) contract procurement.

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:

- 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.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- 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 payroll, travel, and fringe benefits to verify compliance with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition and to determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- 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 that its deposits were fully insured.
- 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.
- 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.
- The Authority's progress in addressing the issue noted in our prior audit report (No. 2009-0666-3A).

In addition, we determined the amount of American Recovery and Reinvestment Act funds that the Authority has applied for, received, and expended.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of the report, during the 26-month period ended August 31, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT UNRESOLVED - VACANT UNITS NOT REOCCUPIED WITHIN DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT GUIDELINES

Our prior audit (No. 2009-0666-3A) of the Grafton Housing Authority, which covered the period July 1, 2006 to June 30, 2008, found that the Authority had delays in reoccupying its vacant housing units. The Department of Housing and Community Development's (DHCD) Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. However, our prior report disclosed that the Authority's average turnaround time for vacant units was 34 days. We recommended that the Authority ensure that vacant units are refurbished and reoccupied within DHCD's timeframe and that DHCD provide the Authority with the funds necessary to fulfill its statutory mandate.

Our follow-up review found that the average turnaround time for vacant units had increased to 71 days, resulting in a lost opportunity to earn approximately \$13,610 in potential rental income. The Authority indicated in the vacancy ledger that many of the vacant units, especially those in the elderly housing apartments, needed substantial renovations before they could be reoccupied. Furthermore, although the Authority indicated that it received a number of rejections which has delayed the process for filling units, we found only one documented rejection during our audit.

Recommendation

The Authority should continue its effort to reduce vacant unit turnaround time. Furthermore, the Authority should consult with DHCD in determining whether units in need of major rehabilitation meet the regulatory criteria for being taken offline.

2. INTERNAL CONTROLS OVER CERTAIN ADMINISTRATIVE FUNCTIONS NEED STRENGTHENING

DHCD's Accounting Manual for State-Aided Housing Programs provides guidance to local housing authorities in ensuring adequate internal controls over administrative functions. Specifically, Section 8 of the Accounting Manual states:

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

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

- *Promote operational efficiency.*
- *Encourage adherence to prescribed Managerial Policies, State Statutes, and DHCD Rules and Regulations.*

However, our review identified that the Authority needs to strengthen its internal controls over certain administrative functions, including (a) petty cash, (b) pet deposits, (c) inventory control, (d) rent determination, and (e) tenant transfers, as follows:

a. Petty Cash

The Authority established a \$200 Petty Cash Fund, which DHCD defines as a fixed amount reserved for the payment of minor expenses. However, our review of the Authority's financial statements noted that the Authority did not reflect the account in its General Ledger or on its financial statements. Proper controls over and documentation of petty cash expenditures are necessary to ensure that funds are accurately accounted for and used for proper purposes.

The fund was used by the former Executive Director to pay for gift cards to compensate a tenant for cleaning services. We found that during our audit period, the Authority purchased 12 gift cards totaling \$850. The current Executive Director discontinued the practice of using tenants for cleaning services and issuing gift cards as payment for services.

b. Pet Deposits

We found that the Authority was not complying with DHCD regulations for maintaining pet deposits. Specifically, we found that although pet deposits are maintained in separate interest-bearing accounts, the Authority did not maintain a subsidiary ledger to document the names of tenants who paid a pet deposit. DHCD's Pet Guidelines state, in part:

A pet deposit of \$160.00 or one month's rent, whichever is less, is required of each pet owner. [Authority management is responsible for] proper record keeping of: owner's and pet's pertinent information, pet participation fee, [and] deposits

As of June 30, 2010, the pet deposits account had a balance of \$4,424 on the Authority's financial statements. Our review of the General Ledger and tenant files indicated that deposits were taken in and returned during the audit period. Nevertheless, without a subsidiary ledger, the Authority cannot be assured that individual pet deposits received or returned were properly accounted for or that balances reflected on the Authority's financial statements are accurate.

c. Inventory Control

Our audit found that the Authority did not maintain a complete, up-to-date inventory listing of its furniture and nonexpendable equipment and could not provide us with an annual physical inventory listing taken during the audit period. DHCD's Accounting Manual for State-Aided Housing Programs, Section 15, states, in part:

A formal system for the inventory of furniture and equipment [must] be established by program by all LHAs [local housing authorities]. The inventory will be composed of two separate parts; a capital inventory which will include all 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.

Moreover, DHCD guidelines call for the Authority to establish furniture and equipment record cards or use an automated system. Also, the Authority is encouraged to tag all inventory with an inventory tag with assigned asset number, and conduct an inventory annually. We found that the Authority had received 60 refrigerators donated as part of an energy program and that an additional nine refrigerators and four stoves were purchased during our audit period. However, although the Authority placed the items into service, it did not tag the items or record them in an inventory listing. Without an up-to-date inventory list that is verified annually, there is inadequate assurance that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

d. Rent Determination

Our audit found that a tenant was compensated by the Authority for cleaning and maintenance services performed during the period June 1, 2008 to August 31, 2010. The tenant earned \$12,896 and was issued an Internal Revenue Service Form 1099 for calendar years 2008 and 2009 and will be issued one for calendar year 2010 for the income earned. However, we found that the Authority did not include this income in the tenant's two annual rent calculations performed during our audit period, thereby losing the opportunity to earn approximately \$2,688 in potential rental income. The 760 Code of Massachusetts Regulations (CMR) 6.05(2)(a) states, in part:

Gross household income shall be the total of the following: The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.

The current Executive Director contacted DHCD to determine whether the Authority would be able to recover the lost rental income from the tenant. DHCD responded as follows:

Tenant providing cleaning work to GHA [Grafton Housing Authority] - Unfortunately, GHA will have to take this as a loss, as it was clearly GHA's oversight to not include this as income in rent determination. GHA was aware of the income and selected to not include it. The Authority should insure that all tenant income is included the annual rent determinations.

e. Tenant Transfers

During our review of the Authority's tenant selection procedures for housing, we noted that a tenant was over-housed in a three-bedroom apartment in the family program. The former Executive Director transferred the tenant to a one-bedroom apartment in the elderly program. DHCD does allow for transfers when tenants are over-housed; however, tenants must be eligible for the housing to which they are being transferred. The 760 CMR 5.03, which allows for transfers for administrative reasons, states, in part:

Transfer of a household from one unit to another at the discretion of the executive director of an LHA at any time for a sound administrative reason such as . . . change in the number of persons in the household so that the unit is no longer of appropriate unit size for the household. A transfer for administrative reasons may be made between units in elderly/handicapped housing and family housing in the event that transfer cannot be made to a unit of appropriate unit size in the same type of housing, provided that the household is eligible for the housing to which the transfer is made.

The tenant in question did not meet the eligibility requirement for the elderly housing program and therefore should not have been transferred.

To address this issue, the current Executive Director contacted DHCD, which responded, in part:

The situation described appears that the tenant was erroneously transferred to the Chapter 667 (elderly) state-aided public housing for which she was not eligible. To live in Chapter 667 a household member must be 60 years old or older or have a documented disability. Since the tenant is established in the unit and GHA does not have one bedroom family units that would be the most appropriate size for her, the tenant should remain housed and the error should be noted when reviewing future transfer requests or needs to transfer over-housed tenants.

Recommendation

The Authority should strengthen its internal controls by (a) ensuring that the petty cash fund is listed in its accounting records and financial statements and is used only for appropriate

incidental administrative costs, (b) properly maintaining a subsidiary for the pet deposit account that will identify all tenant deposits and reimbursements and reconcile this information to the bank records and financial statements, (c) properly updating and maintaining an inventory listing and conducting an annual inventory of property and equipment in compliance with DHCD regulations, (d) ensuring that all eligible income is included when conducting annual rent determinations, and (e) ensuring that all future tenant transfers are conducted in accordance with DHCD regulations.

Auditee Response

In response to our audit, the Authority's Chairman responded, in part:

Grafton Housing Authority has taken the appropriate steps to correct those areas of concern.