



# The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
NORTH BROOKFIELD HOUSING AUTHORITY  
APRIL 1, 2006 TO JUNE 30, 2008

OFFICIAL AUDIT  
REPORT  
FEBRUARY 19, 2009

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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 North Brookfield Housing Authority for the period April 1, 2006 to June 30, 2008. 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. 2006-0901-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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### AUDIT RESULTS

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#### 1. PRIOR AUDIT RESULTS UNRESOLVED

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Our prior audit noted (a) weaknesses in the Authority's internal controls over tenant accounts receivable and (b) excessive unit vacancies and noncompliance with quarterly report filing requirements. Our follow-up review revealed that both of these issues remained unresolved, as discussed below.

##### a. Weaknesses in Internal Controls over Tenant Accounts Receivable

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Our prior audit report disclosed weaknesses in the Authority's internal controls over tenant accounts receivable. Specifically, we found that although the Authority maintained monthly rent rolls and a tenant accounts receivable ledger, it had yet to establish a written collection policy. Moreover, we found that the Authority had a tenant accounts receivable balance totaling \$55,495, of which \$38,216 was more than 90 days old. Of the \$55,495 balance, \$9,979 was due from four vacated tenants, and the remaining \$45,516 was due from 14 active tenants. Furthermore, three tenants accounted for \$30,625, or 67% of the balance due from active tenants.

Our follow-up review revealed that as of June 30, 2008, the Authority's tenant accounts receivable balance had increased to \$62,596. Moreover, we determined that \$41,733 (67%) of the \$62,596 is due from eight tenants who vacated their apartments over two years ago, whereas the remaining balance of \$20,863 is due from 13 active tenants. In addition, we noted that the Authority has established a written debt collection policy. However, we found that contrary to its established policy, the Authority has not pursued court action to collect past-due amounts owed by four current tenants who account for \$17,294, or 83% of the remaining balance of \$20,863 due from current tenants. In response to our audit, the Authority stated that the accounts receivable, consisting of two deceased tenant accounts and tenants who vacated apartments without notice, are

deemed uncollectible and will be written off per board approval. Remaining accounts will be notified of legal action to commence if rental obligations are not met.

**b. Excessive Unit Vacancies and Noncompliance with Quarterly Report Filing Requirements**

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Our prior audit report noted that the Authority may have lost the opportunity to earn an additional \$20,208 in potential rental income because it did not ensure that vacated units were reoccupied within the 21-day timeframe established by DHCD's Property Maintenance Guide. Our prior report also noted that the Authority was not submitting required quarterly vacancy reports to DHCD.

Our follow-up review indicated that for the period April 1, 2006 through June 30, 2008, the Authority may have lost the opportunity to earn approximately \$44,401 in potential rental income. We noted that 23 units had been vacant from 35 to 928 days, and that potential rental income losses ranged from \$44 to \$5,933 per unit, with an average of \$1,090 in potential rental income lost per unit. In addition, our follow-up review revealed that, although the Authority submitted the nine quarterly vacancy reports as required, it did so 69 to 800 days beyond the 30-day period allowed by DHCD. In response, the Authority stated there are several factors that contribute to many refusals: there are 18 stairs to three apartment buildings that account for 28 of the Authority's apartments, there are only 21 parking spots (close to apartments) to accommodate 64 units, and there is just one maintenance man to take care of two sites. Also, winter weather conditions are a major factor in slow turnaround from December to March. The Authority further stated that all quarterly reports have now been submitted.

**2. INADEQUATE CONTROLS OVER TENANT RENT RE-DETERMINATIONS**

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Our examination of the 46 tenant rent re-determinations conducted during the audit period revealed that 16 rent changes lacked supporting documentation for the tenants' income and deductions, 43 rent changes lacked required signed lease addendums, and three tenant files did not contain the original leases. Furthermore, we found that the Authority's 2008 annual rent re-determinations were completed four months late. In response to our audit, the Authority stated that forms for annual re-determination have been sent out with deadlines for submitting information. Appointments will be set up in the office for each tenant to come in with any missing documentation, review the re-determinations made, and sign lease addendums. If original leases are not available as part of tenants' current documentation, the Executive Director will have a new lease signed, noting the tenants' original occupancy date. Also, new folders are being set up for all tenants.

## 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 North Brookfield Housing Authority for the period April 1, 2006 to June 30, 2008. 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.
- 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.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and determine whether selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and determine whether rental charges by landlords were consistent 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.
- 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's 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 audit report (No. 2006-0901-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS UNRESOLVED

Our prior audit (No. 2006-0901-3A) of the North Brookfield Housing Authority noted (a) weaknesses in the Authority's internal controls over tenant accounts receivable and (b) excessive unit vacancies and noncompliance with quarterly report filing requirements. Our follow-up review, which covered the period April 1, 2006 through June 30, 2008, revealed that both of these issues remained unresolved, as discussed below.

#### a. Weaknesses in Internal Controls over Tenant Accounts Receivable

Our prior audit report revealed weaknesses in the Authority's internal controls over tenant accounts receivable. Specifically, the report noted that outstanding balances had increased from \$13,558 on June 30, 2000 to \$55,495 as of March 31, 2006; \$38,216 of this amount was more than 90 days old. Of the \$55,495 balance, \$9,979 was due from four vacated tenants, and the remaining \$45,516 was due from 14 active tenants. Furthermore, three tenants accounted for \$30,625, or 67%, of the balance due from active tenants. The prior report further noted that although the Authority maintained monthly rent rolls and a tenant accounts receivable ledger, it had yet to establish a written collection policy.

Our follow-up review revealed that the Authority's tenant accounts receivable balance had increased to \$62,596 as of June 30, 2008. Moreover, we found that \$41,733 (67%) of the \$62,596 owed was due from eight tenants who vacated their apartments over two years ago, whereas the remaining balance of \$20,863 was due from 13 active tenants.

The Authority has established a written collection policy that was approved by the Authority's Board of Directors on September 8, 2008. In fact, Item 10 of its new collection policy requires that "upon expiration of the Notice to Quit, the Authority will serve a Summary Process Summons and Complaint on tenant and file the action in a court of appropriate jurisdiction." However, we found the Authority had not pursued court action to collect past-due amounts due from four current tenants who account for \$17,294, or 83%, of the \$20,863 remaining balance.

**Recommendation**

The Authority should follow its written collection policy by recovering past-due tenant accounts receivable through legal action. In addition, the Authority should write off balances due from former tenants that the board deems uncollectible.

**Auditee's Response**

The Authority's Executive Director responded, in part:

*The accounts receivable balance, which consists of 2 deceased tenant accounts and tenants who vacated apartments without notice, deemed to be uncollectible will be written off per board approval. Remaining accounts will be notified of action to commence if rental obligations are not met. In other words, Rent Collection Policy will be pursued with [our] Attorney.*

**b. Excessive Vacancies and Noncompliance with Quarterly Report Filing Requirements**

Our prior audit report noted that the Authority lost the opportunity to earn an additional \$20,208 in potential rental income because it did not ensure that vacated units were reoccupied within the 21-day timeframe established by DHCD's Property Maintenance Guide. Our prior report noted that 18 units had been vacant from 32 to 346 days, and potential rental income losses ranged from \$18 to \$2,866 per unit, with an average of \$1,123 in potential rental income lost per unit. Additionally, our prior audit report noted that the Authority was not submitting to DHCD required quarterly vacancy reports summarizing the vacancies and categorizing them as current or more than 60 days old.

Our follow-up review revealed that the issue of reoccupying vacant units in a timely manner remained unresolved. Specifically, for the period April 1, 2006 through June 30, 2008, 23 units were vacant from 35 to 928 days, and potential rental income losses ranged from \$44 to \$5,933 per unit, with an average of \$1,090 in potential rental income lost per unit. By not adhering to DHCD's 21-day guideline for reoccupying vacant units, the Authority lost the opportunity to earn approximately \$44,401 in potential rental income during the audit period. Furthermore, of this \$44,401, we determined that \$16,260 was attributable to four 705 Family units that were in need of major rehabilitation.

The Executive Director indicated that many factors contributed to this condition, including limited on-site parking for Elderly/Handicapped Program units, the fact that second-floor

units were less desirable for many potential tenants, the poor condition of certain vacated units, and the fact that the Authority's maintenance staff consisted of only one person. Also, the Executive Director stated that the Authority was unable to hire additional maintenance help or utilize outside contractors to assist in refurbishing the units due to inadequate funding.

We also noted that the Authority was required by DHCD to submit nine quarterly vacancy reports during the current audit period. We found that all nine reports were submitted to DHCD on October 7, 2008, or 69 to 800 days beyond the 30-day period allowed by DHCD. The Executive Director stated that the delay was attributable to her unfamiliarity with new on-line procedures for submitting the vacancy reports.

### ***Recommendation***

The Authority should request funding from DHCD to hire additional maintenance workers or outside contractors to assist in the refurbishing of its vacant units in order to maximize potential rental income and provide needed housing to those persons on the Authority's waiting list. In addition, the Authority should ensure that all required quarterly vacancy reports are filed within DHCD's 30-day time period. Moreover, the Authority should obtain DHCD approval to take off-line any units that need extensive rehabilitative work and report them accordingly on the quarterly vacancy reports.

### ***Auditee's Response***

The Authority's Executive Director responded, in part:

*In regard to excessive vacancies, as stated, our site has several factors that contribute to many refusals – 18 stairs to 3 apartment buildings that account for 28 of our apartments. 21 parking spots (close to apartments) to accommodate 64 units. One maintenance man to take care of two sites and winter weather conditions are major factor in slow turn around during December through March.*

*As of the date the current audit was performed all quarterly reports had been submitted.*

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## 2. INADEQUATE CONTROLS OVER TENANT RENT RE-DETERMINATIONS

Our examination of the 46 tenant rent re-determinations conducted during the audit period revealed that, contrary to 760 Code of Massachusetts Regulations (CMR) 6.04, 16 rent changes lacked supporting documentation for the tenants' income and deductions. The 760 CMR 6.04 states, in part:

*The tenant shall provide and authorize reasonable verification of information regarding income . . . in order to insure reliability of the information.*

Of the 16 rent changes that lacked supporting documentation, two were reductions in rent, three were increases in rent, and 11 resulted in no change in rent. The Executive Director stated that although the documentation was available at one time, it has since been misplaced. Without proper supporting documentation, the accuracy of these rent re-determinations could not be verified.

In addition, our review of these 46 rent re-determinations revealed that 43 changes lacked required signed lease addendums, contrary to Section IV (A) of DHCD's standard lease, which states, in part:

*Each notice of a re-determined lease shall be in writing and contain the rental amount and the date when it will be effective.*

The Executive Director stated that she did not always have lease addendums signed because the rent changes were always made after-the-fact. Without signed lease addendums, there is inadequate evidence that both parties (Authority and tenant) are aware of and in agreement with the rental change as well as the other terms and conditions of the lease.

Moreover, we noted that three of the 46 tenant files reviewed did not contain the original leases. The Executive Director stated that original leases were executed but have since been misplaced.

Furthermore, our review noted that the 2008 annual rent re-determinations were completed four months late. The re-determinations were due April 1, 2008; however, they were not completed until August 2008. The Executive Director indicated that she mistakenly believed that new regulations required re-determinations to be done bi-annually instead of annually.

***Recommendation***

The Authority should implement stronger internal controls to ensure that tenant files contain complete supporting documentation for tenant income and deductions as well as signed lease addendums and all other required information. In addition, the Authority should ensure that annual rent re-determinations are completed as required.

***Auditee's Response***

The Authority's Executive Director responded, in part:

*Forms for our annual redetermination have been sent out with deadlines for submitting information. Appointments will be set up in the office for each tenant to come in with any missing documentation and to review worksheet of redetermination and to sign addendum. If original lease is not with current folder, director will have a new lease signed with notation of original occupancy date noted. New folders are being set up for all tenants.*