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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
DENNIS HOUSING AUTHORITY
JULY 1, 2002 TO SEPTEMBER 30, 2006

OFFICIAL AUDIT
REPORT
SEPTEMBER 5, 2007

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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 Dennis Housing Authority for the period July 1, 2002 to September 30, 2006. 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 conducted a follow-up review of the conditions noted in our prior audit report (No. 2003-0642-3A).

The Authority manages 152 units of state-subsidized housing and 150 state and federally funded housing certificates. The Authority also owns and operates several rental units at Melpet Farms, six acres of land deeded from the Town of Dennis on which the Authority is required by restrictive covenant to develop affordable housing. The Town of Dennis donated a portion of its Melpet Farms property to the Authority, which obtained a \$400,000 construction loan to rehabilitate these units.

Based on our review, we have concluded that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in inappropriate expenditures, uneconomical practices, and the mismanagement of its housing project. Our follow-up review disclosed that the Authority has taken steps to correct past deficiencies, although further improvements are still needed.

AUDIT RESULTS

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STATUS OF PRIOR AUDIT RESULTS

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Our prior audit report (No. 2003-0642-3A) of the Dennis Housing Authority noted several fiscal and managerial deficiencies, including (a) a decline in the Authority's financial position, (b) inadequate controls over payroll expenditures, (c) mismanagement of the Authority's Melpet Farms rehabilitation project, (d) noncompetitively awarded contracts, and (e) questionable expenditures made by the Authority's Board of Directors totaling \$7,808. Our follow-up review indicated that although the Authority has taken steps to address these issues, they have not all been fully resolved, as discussed below.

a. Financial Position

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Our prior audit indicated that the Authority had experienced a steady decline in its financial position. Specifically, its operating reserve had been drawn below the minimum allowable level established by the Department of Housing and Community Development (DHCD), its Revolving Fund had been used to fund the Melpet Farms rehabilitation project and not the Authority's day-to-day operations, and \$41,000 was loaned from the Modernization Fund to rehabilitate units at Melpet Farms. In addition, the Authority borrowed funds through a construction loan to perform rehabilitation work at Melpet Farms. Our prior audit disclosed that this project had not been managed properly, was significantly incomplete, lacked sufficient funding for completion, and the Authority did not have the financial ability to repay the principal of the construction loan.

Our follow-up review determined that the Authority still does not have the financial resources to complete the rehabilitation of the Melpet Farms housing units. We also determined that the Authority's Board of Directors has not developed a management plan to address the Authority's financial plight. The Authority currently pays only the monthly interest on the construction loan. Further, the Authority's declining financial position may prevent it from being able to continue paying the Melpet Farms construction loan or to refinance the construction loan, continue to repay the subsidy overpayment that has been partially repaid, repay the \$95,385 in advances owed to the Authority's Revolving Fund, or repay the \$41,000 loaned to Melpet Farms from the Modernization Fund in order to complete its modernization projects.

b. Controls over Payroll Expenditures

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Our prior audit of the Authority's payroll expenditures noted several deficiencies. Specifically, (a) payroll checks had been altered, (b) the former Executive Director received \$6,250 in what appeared to be excessive and improper compensation, and (c) unearned sick and vacation time had been awarded to employees. In addition, our prior audit disclosed that the Authority's Board had a practice of preparing and signing payroll checks up to six weeks in advance. Testing during our prior audit revealed that the former Executive Director and a maintenance worker had cashed 117 altered payroll checks totaling \$63,881.

Our follow-up review determined that the Authority has instituted a number of new procedures to correct the deficiencies disclosed in our prior audit report, including utilizing its payroll software to manage and control its accrued sick and vacation time, discontinuing its practice of preparing and signing checks in advance of the pay period in which expenses are incurred, and ceasing its practice of using contracts to compensate Authority employees. Further, the State Ethics Commission (SEC) reviewed the results of our prior audit and subsequently initiated a review of its own. Based on the results of their review, the SEC fined the former Executive Director \$6,000 for awarding unearned sick and vacation time to former Authority employees.

c. Management of Melpet Farms Rehabilitation Project

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Our prior audit indicated that the Authority had not adequately administered its rehabilitation project for its Melpet Farms property. Specifically, the prior audit found the following deficiencies: (a) inadequate project planning, (b) questionable use of construction loan funds, (c) vacant and uninhabitable units, and (d) inadequate controls over project operating revenues and expenses. Our prior audit determined that on March 4, 2002, the Authority obtained a \$400,000 construction loan, which was scheduled to convert into a five-year note after 18 months. The purpose of the loan was to rehabilitate the property's 13 existing units. Our prior audit determined that, as of January 31, 2003, the Authority had drawn \$314,916 from the construction loan, leaving \$85,084 available, and that only seven of the 13 units were habitable and occupied.

Our follow-up review determined that one additional unit has been rehabilitated since the prior audit. Eight of the 13 Melpet Farms units are now occupied; the remaining five units were uninhabitable and in need of extensive rehabilitation, but there was insufficient funding to complete the rehabilitation.

d. Awarding of Contracts**11**

Our prior audit revealed that the Authority did not follow statutory requirements for the procurement of building repair, construction services, equipment, and supplies. Specifically, the Authority did not adhere to Chapter 149, Section 44A, of the General Laws, which requires every contract by a public agency for building construction, reconstruction, installation, demolition, maintenance, or repair costing more than \$25,000 be put out to bid, and Chapter 30B of the General Laws (the Uniform Procurement Act), which requires public entities to seek verbal or written quotes for the procurement of supplies or equipment totaling between \$5,000 and \$25,000. In addition, contrary to Chapter 30B, the Authority did not designate a procurement officer, create procurement files, and retain procurement records for at least six years from the date of final payment of each contract. During our prior audit period, the Authority entered into \$448,614 in noncompetitively awarded contracts for goods and services (\$409,324 for goods and services plus \$39,290 for cleaning supplies, waste receptacles, outdoor furniture, and a swing set), without conforming to the above requirements.

Our follow-up review determined that the Authority has adopted new procurement procedures and has complied with Chapter 30B and Chapter 149, Section 44A of the General Laws when procuring goods and services.

e. Expenditures Made by Board of Directors**12**

Our prior audit disclosed that Authority Board members and the former Executive Director attended numerous conferences and seminars that required the Authority to pay for room, board, and mileage expenses. These expenses, which totaled \$7,808 for overnight trips to Martha's Vineyard, The Balsam's in New Hampshire, The Hyatt Regency in Newport, Rhode Island, and The Woodstock Inn and Resort in Vermont, were questionable given the Authority's poor financial condition and the fact that they did not appear to be related to the programs to which they were charged.

Our follow-up review determined that the Board has strengthened the Authority's policies and now reviews all requests submitted by employees and Board members seeking to attend seminars and conferences.

In its response, the Authority indicated that it continues to move forward in the proper direction, and practice proper procedures.

INTRODUCTION

Background

The Dennis Housing Authority manages 152 units of state-subsidized housing and 150 state and federally funded housing certificates. The Authority also owns and operates 13 units of housing located at Melpet Farms (six acres of land deeded from the Town of Dennis on which the Authority is required by restrictive covenant to develop affordable housing). To date, only eight of the 13 Melpet Farms units have been rehabilitated and reoccupied. The Town of Dennis donated a portion of its Melpet Farms property to the Authority, with the intention of rehabilitating these units using a \$400,000 construction loan obtained by the Authority.

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 Dennis Housing Authority for the period July 1, 2002 to September 30, 2006. 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 made in a timely manner and that uncollectible tenants' accounts receivable balances were written off properly.

- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that 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 that 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 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.

In addition, we conducted a follow-up review of the conditions noted in our prior audit report (No. 2003-0642-3A).

Our prior audit noted that on October 15, 2002, while we were performing our audit of the Authority, the Executive Director abruptly resigned. After her resignation, it became clear that the Authority had not established and maintained systems to control, monitor, and report on its operations. Specifically, certain Authority documentation could not be located, and financial transactions and certain account balances could not be explained or confirmed. Generally Accepted Government Auditing Standards (GAGAS) require officials and employees who manage public programs to render an account of their activities so that the public can be assured that government funds are handled properly and in compliance with applicable laws, rules, and regulations.

Our follow-up review has determined that the Authority has taken steps to strengthen some of its systems for controlling, monitoring, and reporting the results of its operations. However, we noted that the collective effectiveness of the Authority's control environment still needs improvement. GAGAS further state that the control environment sets the tone of an organization, influencing the control consciousness of its people. The control environment is the foundation for all other components of internal control, providing discipline and structure.

The accompanying Audit Results describe deficiencies that continue to exist and recommends corrective action that the Authority should implement.

Financial Position

Our prior audit noted that the Authority's mismanagement of its operating reserves, operating funds, Modernization Fund, and construction funds placed the Authority in financial jeopardy, and that financial mismanagement and questionable decisions made by the Authority's previous Board of Directors and its former Executive Director contributed to the Authority's perilous financial condition. Further, our prior report noted that the Authority does not have the ability to (1) continue payments on the Melpet Farms construction loan or to complete the rehabilitation of the remaining Melpet Farms housing units, (2) repay DHCD for the subsidy overpayment of fiscal year 2001, or (3) repay the advances to Melpet Farms from the Authority's Revolving Fund and Modernization Fund.

As discussed in the Audit Results section, our follow-up review determined that the Authority's fragile financial position remains unchanged and that, without new sources of revenue and a restructuring of its debt, the Authority's perilous financial condition will continue without resolution.

Management Partnership and Changes in Executive Director

Our prior report disclosed that on March 11, 2003, the Authority's Board voted to cancel its search for a new Executive Director and entered into a partnership with the Barnstable Housing Authority (BHA). The purpose of the partnership is to utilize the strengths and extensive knowledge of public housing that the Barnstable Housing Authority's management team possesses in order to stabilize the Dennis Housing Authority's perilous financial position.

Our follow-up review determined that the Authority's Board met on June 30, 2005 and voted to end the Authority's relationship with the Barnstable Housing Authority. The Board also voted to appoint an interim Executive Director to manage the Authority's daily operations while a search for a new Executive Director was conducted. At the completion of its search, the Board appointed a new Executive Director on December 19, 2005.

The Board met on March 13, 2006 to terminate the employment of the newly hired Executive Director, who was still within a 90-day probationary period. The Board explained that the new Executive Director had not met all the terms of employment because the new Executive Director was not available to work full-time and had not provided the Authority with requested DHCD housing manager certification. No further explanation was given. In conversation with several Board members at the informal exit conference, we were told that the Board was unaware that the new Executive Director was receiving a pension from a quasi-state agency (the Massachusetts Housing Finance Agency) and could not work full-time while receiving this pension. The position posting stated that the Executive Director was a full-time position and that the eligible candidate must be a DHCD-certified housing manager.

On April 10, 2006 the Board met and approved the appointment of an Interim Executive Director to manage the Authority's daily operations while a search for a new Executive Director was conducted. On April 25, 2006 DHCD approved a Consulting Agreement to pay for an Interim Executive Director while the search was conducted. After an extensive search, the Board voted on September 5, 2006 to hire a new Executive Director.

AUDIT RESULTS

STATUS OF PRIOR AUDIT RESULTS

Our prior audit report (No. 2003-0642-3A) of the Dennis Housing Authority noted several fiscal and managerial deficiencies, including (a) a decline in the Authority's financial position, (b) inadequate controls over payroll expenditures, (c) mismanagement of the Authority's Melpet Farms rehabilitation project, (d) noncompetitively awarded contracts, and (e) questionable Board expenditures totaling \$7,808. Our follow-up review indicated that although the Authority has taken steps to address these issues, many of them have not been fully resolved, as discussed below.

a. Financial Position

Our prior audit revealed that the Dennis Housing Authority had experienced a steady decline in its financial position. Specifically, its operating reserve had been drawn below the minimum allowable level established by the Department of Housing and Community Development (DHCD), its Revolving Fund had been used to fund its Melpet Farms rehabilitation project and not the Authority's day-to-day operations, and loans from the Modernization Fund were diverted to fund the rehabilitation work at Melpet Farms. In addition, the Authority had borrowed funds through a construction loan to perform rehabilitation work at Melpet Farms. The prior audit disclosed that this project had been mismanaged, was significantly incomplete, and lacked sufficient funding for completion, and that the Authority did not have the financial ability to repay the principal of the construction loan.

A summary of the Authority's deteriorating financial position follows:

Melpet Farms Project

Our prior audit disclosed that the Authority had obtained a \$400,000 construction loan that was to be used for the rehabilitation of Melpet Farms. As of December 31, 2002, the Authority had drawn down \$314,916 of the \$400,000 construction loan proceeds for the rehabilitation of Melpet Farms, leaving \$85,084 in available loan proceeds. As of the close of our audit, the Authority was paying only the monthly interest on the construction loan. The loan was scheduled to convert to a five-year note after 18 months, but has not. The Authority has also loaned this project \$41,000 from its Modernization Fund. As of

December 31, 2002, the Melpet Farms project had construction and related expenses totaling \$370,359. The Authority's Revolving Fund is absorbing the day-to-day costs associated with the Melpet Farms program. Contrary to sound business practices, rents from the occupied units at Melpet Farms are being commingled into the Melpet construction loan bank account and not into the Authority's operating account. As of January 31, 2003, five of the project's 13 units remain uninhabitable, and two of those units have been gutted, with only the shells of the units remaining. Our follow-up review disclosed that one additional unit had been rehabilitated, raising the total number of habitable units to eight.

DHCD Subsidy Overpayment

The Authority's 400-1 Program Balance Sheet reflects a liability in an account titled "DHCD Subsidy Overpayment," totaling \$178,536, which equals cumulative overpayments of the Authority's annual subsidy. In a letter dated January 14, 2003, DHCD instructed the Authority to repay \$178,536 to the Commonwealth.

Our follow-up review determined that as of June 30, 2006, the Authority's subsidy overpayment balance totaled \$213,819.

Operating Reserves

Our prior audit report disclosed that the Authority's operating reserve had been drawn below the minimum allowable level established by DHCD. Without a sufficient operating reserve, the Authority cannot perform preventive maintenance as needed. Our follow-up review determined that the Authority's operating reserve balance totaled \$76,937 on June 30, 2006, whereas DHCD recommends a minimum operating reserve of \$96,621 for an Authority of its size.

Revolving Fund

Our prior audit report disclosed that the Authority had used funds from its Revolving Fund to continue the rehabilitation of the Melpet Farms project and that significant amounts were owed to it from the Authority's other programs. Our prior audit also disclosed that Melpet Farms owed the Revolving Fund a total of \$95,385. Our follow-up review indicated that this balance has not changed.

Modernization Funds

Our prior audit disclosed that the Authority had improperly loaned \$41,000 from its Modernization Fund for rehabilitation work undertaken at Melpet Farms. Loans from the Modernization Fund are advanced by DHCD after an application process and are awarded based on specific recognized needs of the Authority.

Our follow-up review determined that the Modernization Fund has not been repaid the \$41,000 owed from the Melpet Farms project.

Dennis Development Corporation (DDC)

The DDC is a nonprofit subsidiary of the Authority that operates an adult day care center. Our prior audit report disclosed that the DDC had a mortgage on the senior center facility with a balance of \$86,483 as of December 16, 2002. This mortgage is secured by the senior center's building and land. Our prior report noted that the Authority had loaned the DDC \$7,500 and had made a \$799 mortgage payment for the DDC that was four months in arrears as of January 31, 2003.

Our follow-up review determined that the Authority had sold the building where the adult day care center was located, paid off the mortgage, resolved all Internal Revenue Service issues, and dissolved the DDC. However, we determined that amounts owed the Authority had not been repaid. As of June 30, 2005, the amount due from DDC was \$4,491. Since the DDC has sold its assets and no longer exists, the Authority should write off this uncollectible amount.

Based on the above factors, it is apparent that the Authority does not have the financial resources to complete the rehabilitation of the Melpet Farms housing units. Moreover, the Authority's Board has yet to develop a management plan to address the Authority's financial plight. The Authority currently pays only the monthly interest on the construction loan. Further, the Authority's declining financial position may prevent it from being able to continue paying or to refinance the Melpet Farms construction, to continue to repay the partially repaid subsidy overpayment, to repay the \$95,385 advanced from the Authority's Revolving Fund for

the Melpet Farms program, or to repay the \$41,000 loaned to Melpet Farms from its Modernization Fund.

Recommendation

The Authority should work with DHCD and its lending institution to develop a financial management plan to stabilize its finances, repay its loans, and gain additional funding to complete its Melpet Farms rehabilitation project and its modernization projects.

b. Controls over Payroll Expenditures

Our prior audit of the Authority's payroll expenditures noted several deficiencies. Specifically, (a) payroll checks had been altered, (b) the former Executive Director received \$6,250 in what appears to be excessive and improper compensation, and (c) unearned sick and vacation time had been awarded to employees. In addition, our prior audit disclosed that the Authority's Board had a practice of preparing and signing payroll checks up to six weeks in advance. Our prior audit also determined that if an employee earned overtime or premium pay, a second payroll check would be prepared for that pay period. Our testing during our prior audit revealed that the former Executive Director and a maintenance worker had cashed 117 altered payroll checks with a value of \$63,881.

Our follow-up review determined that the Authority has instituted a number of new procedures to correct the deficiencies disclosed in our prior audit report. The corrective action includes utilizing its payroll software to manage and control its accrued sick and vacation time, discontinuing its practice of preparing and signing checks in advance of the pay period in which expenses are incurred, and ceasing its practice of using contracts to compensate its employees.

Further, the State Ethics Commission reviewed the results of our prior audit and subsequently initiated a review of its own. Based on the results of their review, the Commission fined the former Executive Director \$6,000 for awarding unearned sick and vacation time to former Authority employees.

Recommendation

The Authority should continue to monitor and control all of its payroll activities in accordance with sound financial management practices.

c. Management of Melpet Farms Rehabilitation Project

Our prior audit indicated that the Authority had not adequately administered its rehabilitation project at Melpet Farms. Specifically, our prior audit found the following deficiencies: (a) inadequate project planning, (b) questionable use of construction loan funds, (c) vacant and uninhabitable units, and (d) inadequate controls over project operating revenues and expenses. Our prior audit also disclosed that the Authority began rehabilitation work at Melpet farms in November 2001, four months before the Town of Dennis transferred the property to the Authority (February 22, 2002). This work was funded with \$41,000 from the Authority's Modernization Fund. These funds had been awarded to the Authority for specifically identified rehabilitation work on its existing housing stock.

Our prior audit revealed that the Authority initiated the rehabilitation of Melpet Farms without hiring a structural engineer or architect to develop plans, developing and adopting a project budget, presenting site plans to the Town Planning Department, or obtaining permits from the Town of Dennis. In correspondence dated April 26, 2001, the Town of Dennis's building inspector detailed numerous structural problems and code violations observed during an inspection at Melpet Farms, and suggested that the Authority's structural engineer or architect propose solutions in their filings with the Town of Dennis.

On March 4, 2002, the Authority obtained a \$400,000 construction loan, which was scheduled to convert into a five-year note after 18 months. The purpose of the loan was to rehabilitate the Authority's 13 existing units. As of December 31, 2002, the Authority had drawn \$314,916 from the construction loan, leaving \$85,084 available. Our prior audit determined that only seven of the 13 units were habitable and occupied. The remaining six units were uninhabitable and in need of extensive rehabilitation work, but there was no funding to complete the rehabilitation. Two of the uninhabitable units suffered extensive termite damage and had to be completely gutted. The tenants in three other uninhabitable units had to be moved because the building in which they were housed had an unheated crawl space, and the water pipes burst due to freezing temperatures. These tenants were initially housed in a hotel, and later moved to Authority units as they became available. Our follow-up review determined that one additional unit has since been rehabilitated, and that eight of the 13 Melpet Farms units have now been occupied.

Our prior audit determined that Melpet Farms' day-to-day operating expenses were being funded through the Authority's 400-1 Revolving Fund, draining scarce operating funds from all of the Authority's housing programs. We also determined that the Authority had not adopted procedures for processing the day-to-day operating revenues and expenses, tenant selection, or rent determination at the Melpet Farms Project.

The Authority's Board indicated that they felt federal and state rules did not apply to Melpet Farms' operations because the project was not subsidized; yet Authority funds have been used to subsidize Melpet Farms' operations. We noted the following operational deficiencies:

- The Authority did not follow the state bidding laws in contracting for construction services or equipment.
- Salaries and bonuses were paid through Melpet Farms; and because DHCD approval is not needed on Melpet Farms expenses, DHCD scrutiny was circumvented.
- The Board did not adopt procedures for selecting tenants or determining rents at Melpet Farms.
- The Board loaned the DDC funds totaling \$6,300 but never recorded such loans on the balance sheets of the Authority or Melpet Farms. Moreover, the Board loaned these funds without establishing a loan agreement that defines interest rates and terms of repayment. In addition, the Board never voted to loan these funds to the DDC.
- The Authority never issued 1099-MISC income forms to the general contractor and electrician for work performed at Melpet Farms during calendar year 2001. Internal Revenue Service (IRS) regulations require entities paying for services that exceed \$600 to prepare and file 1099-MISC forms with the IRS. We discussed this situation with the interim Executive Director, who instructed Authority staff to prepare and file 1099-MISC forms for both calendar years 2001 and 2002.

Recommendation

The Authority should:

- Recalculate its overhead allocation rate so that Melpet Farms is paying its fair share of administrative overhead expenses and identify and charge the funds allocated for the rehabilitation of Melpet Farms for those expenses that are related to the day-to-day operations of Melpet Farms (e.g., labor, utility, insurance, mortgage costs).

- Establish the amount that will represent the Melpet Farms' monthly advance payment to the Revolving Fund to ensure that the Authority is reimbursed for its share of administrative expenses.
- Ensure that all required 1099-MISC income forms are properly prepared and filed.

In addition, the Authority's Board should:

- Review and update procedures for processing construction-related requests for payment and vouchers for operating expenses.
- Adopt procedures for collecting and depositing operating revenues and rents into an operating account and for processing operating expenditures of the Melpet Farms Development.
- Recover the unauthorized loans made to the Dennis Development Corporation and deposit these funds into the Melpet Farms development construction fund.
- Adopt procedures for tenant eligibility, tenant selection, and rent determination at the Melpet Farms development.

d. Awarding of Contracts

Our prior audit revealed that the Authority did not follow statutory requirements for the procurement of building repair and construction services and equipment and supplies. Specifically, the Authority did not adhere to Chapter 149, Section 44A, of the Massachusetts General Laws, which requires every contract by a public agency for building construction, reconstruction, installation, demolition, maintenance, or repair costing more than \$25,000 be put out to bid, and Chapter 30B of the General Laws (the Uniform Procurement Act), which requires public entities to seek verbal or written quotes for the procurement of supplies or equipment totaling between \$5,000 and \$25,000. In addition, contrary to Chapter 30B, the Authority did not designate a procurement officer, create procurement files, or maintain procurement records for at least six years from the date of final payment of each contract. We also determined that the Authority improperly paid a total of \$448,614 in non-competitively obtained goods and services.

Our follow-up review determined that the Authority has adopted new procurement procedures and has complied with Chapter 30B and Chapter 149, Section 44A, of the General Laws when procuring goods and services. In addition, our follow-up review determined that the Authority

donated to the Town of Dennis a swing set and benches that were purchased without bid by the former Executive Director at a cost of \$22,012.

In December 2001, the Board approved a proposal to change the Authority's banking institution. This change was initiated without the Authority's soliciting and analyzing the type and cost of services provided, the cost of maintaining accounts, and the interest rates paid by various banks. The Authority opened 14 accounts with the new institution. However, rather than close out its 10 accounts at the old bank, into which DHCD and the Department of Housing and Urban Development continued to deposit funds, it kept them open and then transferred the funds by check into the new accounts. We also noted that the Authority's former banking institution did not charge for services and fully collateralized all account balances in excess of \$100,000. In contrast, the Authority's new bank charged fees and did not provide collateral for funds in excess of \$100,000.

Our follow-up review determined that the Authority has again changed banking institutions and that its new bank waives fees for government entities. In addition, all accounts are fully collateralized for balances in excess of \$100,000.

Recommendation

The Authority should continue its current banking activities.

e. Expenditures Made by Board of Directors

Our prior audit disclosed unreasonable expenses totaling \$7,808 for Board members attending conferences. We questioned these expenses because they were poorly documented and were allocated to seemingly unrelated programs without any basis or justification. The cost of these overnight conferences and seminars included reimbursement for room, board, and mileage expenses. These expenses for overnight trips to Martha's Vineyard, The Balsam's in New Hampshire, The Hyatt Regency in Newport, Rhode Island, and The Woodstock Inn and Resort in Vermont, were questionable given the Authority's poor financial condition and the fact that they did not appear to be related to the programs to which they were charged. The prior audit further explained that during a period when the Authority did not have the financial resources to justify these expenses, it also needed the active oversight of the Board.

Our follow-up review determined that the Board has strengthened the Authority's policies and now reviews all requests submitted by employees and Board members seeking to attend seminars and conferences.

Recommendation

The Board should continue to review all monetary requests for attending seminars and conferences and review the Authority's current budget projections to determine whether funding is available to attend seminars and conferences at this time, when financial restraints are necessary.

Auditee's Response

The Dennis Housing Authority (DHA) is making every effort to correct and develop a management plan to address the authority's financial plight.

A meeting was held at DHCD in Boston on May 17, 2007. The meeting was positive and DHCD's Associate Director for Public Housing has informed us to move forward as if DHCD will be assisting. DHA will have a detailed answer from DHCD by June 1, 2007.

- *DHA has requested forgiveness of the funds owed to DHCD*
- *DHA has completed some financial modeling for the project and the combined outstanding debt to DHCD and Citizen's Bank could make their project infeasible at worst. Citizen's Bank had been allowing extensions to their interest-only construction loan. These interest payments are covered by the rents received with little excess for management and maintenance. The DHA expects the Citizen's loan to be repaid as part of the re-development.*
- *DHA also requests assistance in our negotiations with Citizen's Bank.*
- *DHA has also asked assistance from DHCD for the following:*
- *For a waiver of the PDF (Priority Development Funds) rules to provide the retainer. The engineer/surveyor has balked at doing any more work without a retainer of \$2,500. DHA is extremely grateful for the support given the project through the Priority Development Fund, but the PDF rules prohibit payment of a retainer. Neither DHA nor the Town of Dennis has the funds to advance for the retainer. ("Lot " to be divided off with the barn to return to the town.)*

The DHA has established that the re-development be 28 units of affordable family rental housing in several buildings architecturally comparable to the area. The existing units will be demolished. The horse barn and surrounding land (approx. 1 1/3 acres) will be subdivided off and given back to the Town (approved at the 2006 Town Meeting). The Town also agreed at the 2006 Town Meeting to allow the re-development to use a portion of the abutting open space in its calculation for septic capacity in order to allow 52 bedrooms and to replace a "reverter" clause in the deed with the affordable deed restriction.

The Dennis Housing Authority continues to move forward in the proper direction, and practice proper procedures, as there are all new staff members.

Auditor's Reply

The Authority should continue to make every effort to correct and develop a management plan that addresses its financial difficulties.