



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

Making government work better

Official Audit Report – Issued April 4, 2014

Dennis Housing Authority

For the period January 1, 2011 through December 31, 2012





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Making government work better

April 4, 2014

Nancy Friend, Executive Director
Dennis Housing Authority
167 Center Street
South Dennis, MA 02660

Dear Ms. Friend:

I am pleased to provide this performance audit of the Dennis Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2011 through December 31, 2012. My audit staff discussed the contents of this report with management of the Authority, and their comments are reflected in this report.

I would also like to express my appreciation to the Dennis Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read 'SMBump'.

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

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 Dennis Housing Authority for the period January 1, 2011 through December 31, 2012.

The objectives of our audit were to review and analyze the adequacy of the Authority's financial and management controls in selected areas and to evaluate its compliance with laws, rules, and regulations applicable to state-aided housing programs. In addition, we sought to determine whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority and, if so, to assess the propriety of these transactions. Finally, we reviewed the Authority's progress in addressing the issues noted in our prior audit report (No. 2009-0642-3A).

Summary of Findings

- Our prior audit report disclosed that the Authority had excessive delays in preparing vacant apartments for occupancy for its elderly-housing program and therefore may have lost the opportunity to earn approximately \$6,653 in rental income. During our current audit, we found that the Authority was still not completely adhering to the Department of Housing and Community Development's (DHCD's) guidelines for turnaround of vacant units. Of the 42 vacant units we tested, 34 had turnaround times longer than the recommended 21 working days, by a cumulative 681 days, for an estimated income loss of \$7,340 for the two-year audit period.
- Our prior audit report disclosed that the Authority had pending litigation for nonpayment of a construction loan of \$400,000 for the Melpet Farm property. During our current audit, we found that this matter had been resolved. Specifically, on May 3, 2012, a final judgment was entered against the Authority for the plaintiff, Connecticut Attorneys Title Insurance Company (CATIC), for \$451,347.05 for defaulting on the repayment of the loan. The Authority will have to continue to disclose this judgment in its financial statements until it is liquidated and continue to monitor CATIC's actions against third parties that may affect the Authority's liability.
- Our prior audit report disclosed that the Authority's Operating Reserve account balance was below the minimum allowable level. During our current audit, we determined that the Authority had made significant progress in increasing its Operating Reserve account balance.
- During our prior audit, we found that the Authority had expensed \$109,760 from its Revolving Fund and \$41,000 from its Modernization Fund for the operation of its Melpet Farm project and had written off \$149,387 in collection losses. During our current audit, we found that the repayment of the Revolving Fund and the Modernization Fund was resolved via DHCD's approval of the Authority's 2009 operating budget.

- During our prior audit, we found that the Authority could not document that an annual inventory had been conducted and did not establish and maintain a subsidiary list of its office equipment that included the cost, purchase date, and description of each individual asset. During our current audit, we found that the Authority had completed an annual physical inventory as of June 30, 2012; was maintaining a comprehensive inventory list of assets with the necessary data; and had reconciled all its inventory items with a value of at least \$1,000 to both the general ledger and the financial statement records.

Recommendations

- The Authority should continue to implement procedures to ensure that all vacant units are occupied within DHCD's 21-working-day timeframe to provide housing to eligible applicants in a timely manner and maximize its primary revenue source (rental income). If multiple units are vacant within a short time, the Authority should consider contracting outside help to expedite the process of filling the vacant units.

OVERVIEW OF AUDITED AGENCY

Background

The Dennis Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority's management office is located at 167 Center Street in South Dennis, Massachusetts. The Authority oversees 124 units for elderly and handicapped residents, 20 family units at multiple scattered sites, and 24 units of leased housing under the Massachusetts Rental Voucher Program.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Dennis Housing Authority for the period January 1, 2011 through December 31, 2012.

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.

The objectives of our audit were to review and analyze the adequacy of the Authority's financial and management controls and practices over (1) adherence to the Department of Housing and Community Development's (DHCD's) approved budgets; (2) operating reserves and whether they were kept within the minimum and maximum amounts required by DHCD; (3) administrative expenditures, including executive salaries, benefits, and credit-card use; (4) subsidy calculations; (5) administration and oversight of development and modernization fund expenditures; (6) preparation and filling of vacant housing units and offline units for reasonable turnaround time; (7) administration of the Massachusetts Rental Voucher Program; (8) inventory controls over property and equipment; (9) tenant eligibility, rent redeterminations, and tenant selection; (10) collectability of accounts receivable; (11) site inspections; (12) procurement of goods and services, including use of collective purchasing; (13) contract administration; and (14) compliance with DHCD's financial reporting and data collection requirements. In addition, we sought to determine whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority and, if so, to assess the propriety of these transactions. Finally, we reviewed the Authority's progress in addressing the issues noted in our prior audit report (No. 2009-0642-3A).

To achieve our audit objectives, we assessed the Authority's internal controls and identified and tested key controls. We gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. Specifically, we performed procedures such as interviewing personnel, reviewing policies, analyzing records, and examining documentation supporting recorded transactions. To obtain our evidence, we used

statistical, non-statistical, and judgmental sampling in the testing of various records in the areas under review. We identified the number of samples to be tested, as it relates to the population, and drew conclusions based on the tests performed. Regarding vacant units, we tested 100% of the population because our prior audit finding and our internal control testing indicated a high risk of noncompliance. We believe that the data we obtained were sufficient for the purposes of our audit.

When performing our audit, we relied on hardcopy source documents and therefore did not consider the reliability of the Authority's information system controls.

Based on our audit, we have concluded that for the period January 1, 2011 through December 31, 2012, the Authority established adequate financial and management practices and controls over adherence to DHCD's approved budgets; operating reserves; administrative expenditures; subsidy calculations; development and modernization fund expenditures; administration of the Massachusetts Rental Voucher Program; inventory; tenant eligibility, rent redeterminations, and tenant selection; collectability of accounts receivable; site inspections; procurement of goods and services; contract administration; and compliance with DHCD's financial reporting and data collection requirements. The Authority also complied with applicable laws, regulations, and policies and procedures related to these activities. We also determined that no Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority. Finally, we determined that that the Authority had resolved most of the issues noted in our prior audit report but still needed to take measures to resolve its problems with vacancy turnaround, which are described in detail in this report.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

Status of Prior Audit Results

1. Vacancy Turnaround—Unresolved

Our prior audit report disclosed that, cumulatively, the Authority had 1,702 days of delays in preparing vacant apartments for occupancy for its elderly-housing program. As a result, it may have lost the opportunity to earn approximately \$6,653 in rental income. We recommended that the Authority implement procedures to ensure that all vacant units were occupied within the 21-working-day timeframe set forth in the Department of Housing and Community Development's (DHCD's) Property Maintenance Guide in order to provide housing to eligible applicants in a timely manner and maximize its rental income.

During our current audit, we determined that the Authority was still not completely adhering to DHCD guidelines for turnaround of vacant units. We tested 100% of the 42 vacant units for timeliness in preparation and reoccupation. Our test showed that 34 of the 42 units took longer than the recommended 21 working days to reoccupy. The 34 units were vacant for a total of 681 days, with an estimated income loss of \$7,340 for the two-year audit period. The Authority had requested that DHCD classify 3 units as offline (expected to be vacant 60 days or more), because of their condition and the necessity of rehabilitation. These units were not part of the 34 units we identified that had vacancies longer than the 21 working days. The Office of the State Auditor received and observed the approvals via the DHCD website and hardcopy documentation.

Recommendation

The Authority should continue to implement procedures to ensure that all vacant units are occupied within DHCD's 21-working-day timeframe to provide housing to eligible applicants in a timely manner and maximize its primary revenue source (rental income). If multiple units are vacant within a short time, the Authority should consider contracting outside help to expedite the process of filling the vacant units.

Auditee's Response

The Authority has made every effort possible and continues to make strides in unit turnover. It is unfortunate that circumstances beyond our control contribute to delayed vacancy turnaround. The DHA takes pride in their work and requires standards be met in turning a unit over. These standards are passed along to our tenants for a successful tenancy. During the 2 year audit period we encountered record unit turnover in a six month period, many occurring at the same

time with a total of 42 vacancies in this 2 year audit period, five of which were three and four bedroom family units, along with the retirement of a maintenance person during this time. In comparison to the prior 3 year audit period that had 27 vacancies. Painters were contracted to assist, but mindful the cost of outside contractors could be far more expensive than a small loss in rental income. We would also point out that during the audit period rental income was up in all programs and there were no actual losses. Leasing and screening created its own challenges with multiple vacancies at once.

The Authority continues to make strides and will work to the best of its ability to complete and lease units within the 21 day recommendation, understanding that sometimes it is out of our control and will not lower our standards to meet these recommendations.

2. Management of Melpet Farm Project—Resolved

Our prior audit report disclosed that the Dennis Housing Authority had pending litigation for nonpayment of a construction loan of \$400,000 for the Melpet Farm property. This loan was obtained for the development and construction of low-income housing units for the property, which was given to the Authority by the Town of Dennis in 2002. When the Authority was unsuccessful in developing the property for affordable housing, the property reverted to the Town of Dennis in 2008.

During our current audit, we found that this issue was resolved. Specifically, on May 3, 2012, a final judgment for nonpayment was entered against the Authority for the plaintiff, Connecticut Attorneys Title Insurance Company (CATIC), for \$451,347.05. The judgment represents the principal, interest, late fees, and attorneys' fees associated with the default on the loan.

According to the Authority's legal counsel, Chapter 121B, Section 13, of the Massachusetts General Laws gives the Authority protection from the enforcement of the final judgment:

The property or funds of an operating agency shall not be subject to attachment or to levy and sale on execution, but if such agency refuses to pay a judgment entered against it in any court of competent jurisdiction, the superior court, sitting within and for the county in which the agency is situated, may, by writ of mandamus, direct the treasurer of such agency to pay such judgment. The real estate of such an agency shall not be subject to liens under chapter two hundred and fifty-four, but the provisions of sections twenty-eight and twenty-nine of chapter one hundred and forty-nine shall be applicable to any construction work by such agencies.

Pursuant to Chapter 260, Section 20, of the General Laws, however, the judgment, unless satisfied, will continue in effect for 20 years. Consequently, the Authority must continue to disclose this judgment until it is liquidated and continue to monitor CATIC's actions against third parties that may affect the Authority's liability.

3. Operating Reserves—Resolved

Our prior audit report indicated that the Authority's Operating Reserve account balance as of December 31, 2008 was \$15,831, below the minimum allowable level of \$72,000 then set forth in DHCD's annual budget guidelines.

During our current audit, we determined that the Authority had made significant progress in increasing its Operating Reserve account balance. As of June 30, 2012 (the latest date for which data were available for our audit period), the Authority's Operating Reserve account balance was \$128,207, which is above the current DHCD-suggested minimum level of \$74,476.

4. Revolving and Modernization Funds—Resolved

During our prior audit, we found that the Authority had expensed \$109,760 from its Revolving Fund and \$41,000 from its Modernization Fund for the operation of the Melpet Farm project. The Authority prepared accounting entries writing off \$149,387 in collection losses, including \$39,294 loaned to the Melpet Farm project from the Modernization Fund.

During our current audit, we found that the repayment of the Revolving Fund and the Modernization Fund was resolved via DHCD's approval of the Authority's 2009 operating budget. Our audit showed that, on the 2008 year-end operating statement, the fee accountant identified a \$150,610 collection loss reflecting the Authority's inability to repay both the Revolving Fund and the Modernization Fund. DHCD approved the Authority's 2009 operating budget, including the collection loss write-off; our audit tests of the Authority's Modernization Fund showed that, during the audit period, all expenditures were allowable and approved by DHCD. In addition, our sample of two capital improvement work plans showed that the expenditures were properly accounted for and were within the DHCD-approved budgeted amounts.

5. Inadequate Inventory Controls—Resolved

Our prior audit found that the Authority was not complying with established inventory control procedures. Specifically, we found that, contrary to DHCD guidelines, the Authority did not establish and maintain a subsidiary list of its office equipment that included the cost, purchase date, and description of each individual asset. Moreover, the Authority could not document that an annual inventory had been conducted to provide support for equipment balances listed on its general ledger and financial statements.

During our current audit, we found that the Authority had completed an annual physical inventory as of June 30, 2012 and was maintaining a comprehensive inventory list of assets with applicable data fields that included items' costs, purchase dates, and descriptions. Although we found that certain assets on the inventory still had no cost listed, we determined that, because of depreciation, these assets no longer had value. Regarding the general ledger and financial statements, we determined that all Authority inventory items with a value of at least \$1,000 were reconciled to both the general ledger and the financial statement records.