



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

*Making government work better*

Official Audit Report – Issued October 4, 2011

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## Agawam Housing Authority

For the period October 1, 2008 through March 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 Agawam Housing Authority for the period October 1, 2008 through March 31, 2010. 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. 2007-0595-3A), which covered the period October 1, 2004 to December 31, 2006.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period October 1, 2008 through March 31, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our prior audit noted deficiencies in the areas of (a) tenant accounts receivable balances, (b) payroll controls, (c) procurement of contractual services, (d) Criminal Offender Record Information (CORI) data storage, (e) use of Authority assets and funds, (f) payroll and operating expenditures, (g) level of operating reserves, and (h) pet security deposits. Our follow-up review indicated that these prior issues had been adequately addressed.

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Our prior audit also noted issues regarding (a) noncompliance with the State Sanitary Code, (b) improvements needed in vacancy turnaround time, (c) noncompliance with tenant selection procedures, (d) rent determination deficiencies, and (e) inadequate inventory controls. Our follow-up review revealed that these issues have not been adequately addressed and remain partially resolved or unresolved.

## 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 Agawam Housing Authority for the period October 1, 2008 through March 31, 2010. 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) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivable; (5) site inspections; (6) payroll, travel, and fringe benefits; (7) inventory controls over property and equipment; (8) contract procurement; (9) cash management and investment practices; (10) DHCD-approved budgets versus actual expenditures; (10) level of need for operating subsidies and operating reserves; and (11) modernization awards. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2007-0595-3A).

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.
- 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.
- 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.
- Modernization awards to verify that contracts were awarded properly and funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2007-0595-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period October 1, 2008 through March 31, 2010, 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 RESOLVED

Our prior audit (No. 2007-0595-3A) of the Agawam Housing Authority, which covered the period October 1, 2004 to December 31, 2006, noted deficiencies in the areas of (a) controls over tenant accounts receivable balances, (b) payroll controls, (c) procurement of contractual services, (d) Criminal Offender Record Information (CORI) data storage, (e) use of Authority assets and funds, (f) payroll and operating expenditures, and (g) pet security deposits. Our follow-up review indicated that these prior issues had been adequately addressed, as discussed below:

#### a. Tenant Accounts Receivable Controls

Our prior audit disclosed that the Authority's fiscal year 2006 financial statements revealed a tenant accounts receivable balance increase from \$24,077 in fiscal year 2004 to \$63,935 as of September 30, 2006. Moreover, we noted that the Authority did not actively monitor amounts due from tenants and may have experienced revenue losses as a result of inaccurate receivable balances. The inaccuracies in tenant accounts receivable balances were due, in part, to incorrect rent determinations and improper postings to the Authority's rent rolls. Also, our review of board meeting minutes revealed that there was no recorded board approval of tenant accounts receivable write-offs totaling \$31,042.

We recommended that the Authority identify any tenant accounts receivable balances that are uncollectible, obtain board approval for all write-offs, and ensure that its Fee Accountant makes the proper accounting entries required by the Department of Housing and Community Development (DHCD) Accounting Manual.

Our follow-up review indicated that the Authority has improved its monitoring of tenant accounts receivable. The Authority's fiscal year 2009 financial statements showed a tenant accounts receivable balance totaling \$1,616 as of September 30, 2009. This balance was further reduced to \$1,259 as of December 31, 2009. Further, we found that the Authority has taken steps to identify tenant accounts receivable balances that are determined to be uncollectible. During fiscal years 2008 and 2009, the Authority wrote off \$21,608 and \$36,411, respectively, in uncollectible tenant accounts receivable. Of the \$36,411 in fiscal year 2009 write-offs, \$28,686

was attributable to tenants moving out. Our review of board meeting minutes also found that all tenant accounts receivable write-offs were properly made with board approval.

**b. Payroll Controls**

Our prior audit disclosed that the Authority was operating without an official approved personnel policy and that neither the Executive Director nor the administrative staff prepared weekly time sheets. In addition, we noted that the informal system used to track employee leave balances did not meet DHCD standards and that the Authority paid two administrative staff employees for compensatory time, even though administrative staff are prohibited from accruing compensatory time without approval from DHCD.

The Authority is required by the terms of DHCD's Contract for Financial Assistance to have an approved Management Plan that includes personnel regulations. During our prior audit, we were unable to verify payroll costs because there was no supporting documentation such as time sheets and formal attendance calendars. Similarly, compensatory time balances could not be verified because of the inadequate system used to track employee time and attendance. In response to our prior audit, the Authority stated that on June 12, 2007, the Authority received approval from DHCD to implement personnel policies, which were submitted and approved by the Authority's board on February 20, 2007.

Our follow-up review showed that the Authority did have board-approved personnel policies and that the personnel policies and payroll procedures require all Authority employees, including the Executive Director, to complete and sign weekly time sheets that include supervisory approval. In addition, we found that formal attendance reports were being maintained electronically with the weekly payroll and were found to be up-to-date. Moreover, we noted that leave requests were on file and included employee signatures as well as supervisory approval. Also, our review of personnel policies found that the Authority has provisions to grant compensatory time to administrative staff only. Earned compensatory time must be approved by the Executive Director and is tracked through the Authority's payroll system. Employees wishing to use compensatory time are required to complete a Leave Request form and obtain approval from the Executive Director.

**c. Procurement of Contractual Services**

Our prior audit noted that the Authority entered into a management consultant contract, dated December 1, 2000, with the former Springfield Housing Authority's Director of Leased Housing for professional services rendered in the performance of rent re-evaluations of the Authority's 242 residents for fiscal year 2001. The initial \$15,000 contract was approved by DHCD with an expiration date of May 1, 2001. After the contract expired, the Authority continued to pay for these consultant services, at the rate of \$50 per hour, without undertaking another procurement process or seeking alternate bids. The Authority did not seek or receive DHCD's approval to continue to pay the former contractor after the contract expired. During the period April 1, 2004 to May 30, 2005, the Authority paid this consultant approximately \$18,100. Additionally, our prior review noted that the Authority did not have a DHCD-approved procurement policy to ensure that the Authority follows applicable procurement laws when contracting for services or purchasing materials.

We recommended that the Authority procure services according to Chapter 30B of the General Laws and DHCD policies by submitting contracts and supporting documentation to the board to obtain a certified vote for approval. In its response, the Authority stated that the board had adopted and received DHCD approval for a procurement policy for the Authority that ensures that all procurement services are performed in accordance with Chapter 30B and DHCD regulations.

Our follow-up review found that the Authority now performs its rent re-evaluations internally and has adopted a procurement policy that complies with Chapter 30B of the Massachusetts General Laws and DHCD regulations.

**d. Controls over Criminal Offender Record Information (CORI)**

Our prior audit noted that the Authority haphazardly stored CORI information in the basement of the Agawam Senior Center, thereby failing to adequately protect and secure the information received. We also noted that the Authority was not in compliance with its own CORI Policy, which was adopted by the board on January 19, 1993, which states, in part:

*CORI shall be kept in a separate, locked file cabinet when not being used . . . . CORI shall be destroyed when the applicant to whom it pertains has been housed. If an applicant has been determined ineligible for housing, the applicant's CORI shall be destroyed three (3) years from the date of the applicant's rejection, or after all*

*administrative and judicial proceedings concerning the rejection are exhausted, whichever is later.*

In its response to our prior audit report, the Authority stated that the request and receipt of all CORI data is now Web-based and that the CORI file is deleted when the applicant to whom it pertains has been housed. In addition, the Authority indicated that the CORI files of applicants who have been determined to be ineligible for housing are printed out and stored in a locked file cabinet for three years from the close of the applicant's rejection or until after all administrative and judicial proceedings concerning the rejection are exhausted.

Our follow-up review confirmed that the Authority has taken corrective action regarding its storage of CORI information. Specifically, we found that the Authority no longer stores tenant CORI information at the Senior Center and that CORI requests are now properly secured using Web-based software and deleted when applicants are housed. In addition, CORI information on prospective tenants determined to be ineligible for housing is now maintained in a locked safe located in the Executive Director's office.

#### **e. Use of Authority Assets and Funds**

Our prior audit revealed that the Authority experienced a steady and significant decline in its financial position as a result of poor administrative decisions made by its Board of Directors, which had not fulfilled its fiduciary responsibilities of adequately monitoring and reviewing Authority operations. Specifically, we noted high personal usage of Authority cell phones; questionable gasoline card purchases; and inappropriate, unallowable, or inadequately supported expenditures of Authority funds. Our follow-up review revealed that the Authority has taken corrective action to address these three issues, as discussed below:

##### ***Cell Phone Usage***

During our prior audit, we conducted a review of cell phone bills during the period October 1, 2004 to December 31, 2006 and found high personal usage with little or no monitoring. For example, a maintenance employee called a tenant 64 times in one month. This socialization between an Authority employee and a tenant is strictly prohibited by a March 26, 2004 memorandum to the maintenance staff from the Authority's board that was signed by all maintenance employees.

During our follow-up audit, we reviewed a sample of cell phone bills for the months of January and July 2009 and found that Authority personnel were making very few personal calls from their cell phones. Moreover, we noted that the Authority's Executive Director had changed the Authority's calling plan and eliminated three cell phones from the plan. The Authority has also developed a policy stating that Authority cell phones are to be used for work-related calls only. In cases where cell charges are incurred as a result of an employee's personal use, the employee will be required to reimburse the Authority for those charges. Moreover, the Office Manager shall send an itemized bill to each employee using a cell phone, with an attached statement that the employee must sign and either attest that no personal phone calls were made, that personal phone calls were made but no additional charges were made to the Authority, or that additional charges were made due to personal calls and the employee reimbursed the Authority for such charges. Also, we noted that the Authority's Executive Director now monitors cell phone bills prior to authorizing payment.

### ***Gasoline Purchases***

Our prior review of gasoline card purchases found that the Authority spent in excess of \$14,000 for 6,480 gallons of gasoline. Based on the number of gallons purchased, we estimated that the Authority's maintenance truck should have traveled over 100,000 miles, when it actually traveled only 46,215 miles. Our audit also noted that a maintenance employee purchased over 800 gallons of gasoline totaling approximately \$1,784 with his assigned gasoline card; however, according to payroll records, he was sick, on vacation, or not on call when making these purchases. Several purchases were made at locations far from Agawam, including Orange and Gardner. On April 11, 2005, the maintenance employee requested a one-time withdrawal of \$40 from his pay for using the gasoline card for his personal use.

Our follow-up audit found that the Authority has improved its internal controls over the use of gasoline cards. Specifically, the Authority's Executive Director now keeps both gasoline cards in her possession, and the cards must be signed out documenting the odometer readings and the purpose of the card. Moreover, each card must be returned immediately after each gasoline purchase. Our review of gasoline card purchases for the months of February and March 2010 found that purchases were within the normal odometer readings for Authority vehicles and were made only for Authority business. In addition, all gasoline card purchases were made locally.

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***Expenditures of Authority Funds***

Our prior audit noted over \$1,363 in questionable expenditures that were either inappropriate, unallowable, or lacked supporting documentation. Questionable usage of Authority funds included \$200 charged to the former Executive Director's personal credit card for staff lunches, \$230 in food and gratuity for a board member's retirement party, and \$360 for two leaf blowers that the former Executive Director ordered delivered to his home for his personal use.

We recommended that the Authority adhere to DHCD policies and amend its own policies and procedures relative to reviewing expenses for allowability and accuracy before payment. In addition, we recommended that DHCD and its legal counsel review the propriety of these questionable expenditures and seek reimbursement for any payments DHCD deems to be improper.

In its response to our prior audit, the Authority stated that the present board understands its fiduciary responsibility for the overall proper administration of the Authority and realizes the importance of policies and guidelines to prevent such activities from occurring, and that the board will take an active role in monitoring the performance of these policies and guidelines.

During our current audit period, the Authority's Executive Director who was hired in January 2008 resigned from the Authority in September 2009, and a new Executive Director was hired effective January 11, 2010. Our follow-up audit of travel expenses and operating expenditures found that all expenditures reviewed had proper approvals, were appropriate and allowable, and were processed with the proper supporting documentation. In addition, we noted that the Authority's current Executive Director is working with DHCD on a regular basis to ensure that the Authority has proper policies and procedures in place in order to comply with DHCD regulations and requirements.

**f. Payroll and Operating Expenditures**

Our prior audit noted that Authority records revealed over \$8,000 in questionable payments associated with a former employee. These payments included \$2,900 for outside attorney services, \$3,375 for a psychological evaluation of the former employee, and \$1,727 for wages and accrued sick leave. These payments were not approved by DHCD, and the \$1,727 in wages and accrued sick leave was in excess of the amount to which the former employee was entitled based on available documentation. Moreover, these unallowable expenditures adversely affected the

Authority's already low operating reserves. Our prior audit recommended that the Authority seek repayment for the unauthorized expenditure of state funds and transfer any funds recovered to the Authority's reserve account.

In its response to our prior audit report, the Authority stated that neither the Executive Director at the time nor the Authority's board was involved in the prolonged personnel dispute that resulted in an administrative employee's resignation and subsequent payments being made. Both the Executive Director and the board also indicated that they understand that any such exposure for the Authority needs to be assigned to DHCD's Risk Management Program to assess potential litigation and provide assistance and resources in order to protect both the Authority's and the Commonwealth's interest. However, the board indicated that our audit recommendation to seek repayment for the unauthorized expenditure would not result in the recoupment of any revenue and was not in the best interest of the Authority at that time.

Our follow-up audit found that the board has declined pursuing recoupment and has chosen to hire a new Executive Director. As noted earlier, we found that the Authority's Executive Director at the time of our prior audit had resigned from the Authority and that a new Executive Director was hired effective January 11, 2010. Our review of payroll and operating expenditures found that all expenditures had proper approvals and were appropriate, allowable, and in accordance with DHCD regulations. In addition, we noted that the current Executive Director is working with DHCD on a regular basis to ensure that the Authority has proper policies and procedures in compliance with DHCD regulations and requirements.

#### **g. Level of Operating Reserves**

Our prior audit report disclosed that the Authority experienced a steady decline in its operating reserves due to questionable decisions made by its former Executive Director. Moreover, our review determined that the Authority's board approved numerous questionable payments and did not fulfill its fiduciary responsibilities to provide adequate oversight of Authority operations, resulting in an operating reserve balance below the DHCD-recommended minimum level. We noted that, as a result, the Authority may not have the financial resources necessary to fund emergency situations or maintain the current level of services provided. Our prior audit noted that the Authority's October 1, 2005 and October 1, 2006 reserve balances were well below DHCD's minimum level of \$121,000 by \$37,284 and \$45,284, respectively. We noted that the Authority's operating reserves declined as follows:

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Date	Balance
October 1, 2002	\$262,488
October 1, 2003	\$211,681
October 1, 2004	\$174,671
October 1, 2005	\$83,716
October 1, 2006	\$75,229

Our prior audit recommended that the Authority adhere to DHCD's policies and guidelines to ensure that it has adequate reserve funds available for any unforeseen occurrences. In addition, we recommended that the board take a more active role in providing for Authority operations. In response to our report, the Authority stated that it expected to end the fiscal year with a reserve balance of \$121,000, which is the suggested minimum level required by DHCD. The Authority also stated that in the future, the board would take an active role in providing oversight for the Authority, including a comprehensive maintenance plan to ensure that the Authority has sufficient reserves as mandated by DHCD to meet emergency situations.

Our follow-up review noted that the board has made oversight a priority, and the Authority has increased its operating reserve balance to comply with DHCD regulations. We found that the Authority's March 31, 2010 operating reserve balance, which totaled \$102,873, met its required minimum balance of \$101,821.

#### **h. Pet Security Deposits**

Our prior review of the Authority's pet security deposit policy indicated that the policy had not been approved by DHCD and was not in compliance with DHCD regulations. Specifically, the Authority did not provide any information to tenants regarding the activity or the interest earned by the pet security deposit account and did not do anything with the interest earned from this account. Our prior review of bank statements, bankbook, and trial balance listing of tenant deposits indicated that the Authority was not reconciling the balances. The balances as of September 30, 2006 were as follows: bank passbook \$4,375, bank statement \$4,218 and trial balance \$3,558. Due to the poor condition of the Authority's records, we could not accurately determine which balance is correct. We recommended that the Authority review its pet policy, revise it as necessary, and obtain DHCD approval. In addition, we recommended that all pet owners be brought up-to-date on their deposits and that the Authority reconcile the balance in the bank account to the bankbook and the general ledger.

In its response to our prior audit report, the Authority stated that the board had adopted and approved a pet policy for all elderly/handicapped housing that is consistent with all requirements of Chapter 151 of the Acts of 1989. In addition, the Authority indicated that interest has been calculated and returned to the tenants as best as could be determined and that bank balances had been reconciled to the general ledger and will be part of each monthly reconciliation process.

Our follow-up audit found that the Authority did adopt a DHCD-approved pet security deposit policy for its elderly/handicapped housing that is consistent with DHCD regulations. In addition, our review of the pet deposit account for the audit period showed that the bank statement and the general ledger account were reconciled as of August 31, 2007. Our review of Authority board minutes showed that at its regularly scheduled board meeting on June 18, 2007, the board approved reimbursement of pet deposits to all senior residents affected and indicated that it would not charge seniors in the future. Further, our review of pet deposit reimbursements showed that the Authority properly returned all reimbursements, including interest accrued, and closed out its pet security deposit bank account.

## **2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED OR UNRESOLVED**

Our prior audit report also noted issues regarding (a) noncompliance with the State Sanitary Code, (b) improvements needed in unit vacancy turnaround time, (c) noncompliance with tenant selection procedures, (d) rent determination deficiencies, and e) inadequate inventory controls. Our follow-up review revealed that these issues have not been adequately addressed and remain unresolved, as discussed below:

### **a. Noncompliance with the State Sanitary Code**

Our prior audit noted that the Authority did not comply with the DHCD's Property Maintenance Guide, which requires Authorities to inspect dwelling units annually and upon each vacancy to ensure that every unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code.

Our prior inspection of six housing units at the Authority's Brady Village development noted 13 instances of noncompliance with Chapter II of the State Sanitary Code, including missing baseboard heat covers, crumbling walls, water stains on walls and ceilings, cracked electric switch plate covers, missing smoke detectors, broken seals on windows, and missing stair handrails. We

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noted that although the units inspected had been vacant for long periods of time, none of these problems had been addressed.

Our prior audit report recommended that the Authority apply for funding from DHCD to address the issues noted during our inspections of the interior (dwelling units) and exterior (buildings) of the Authority, as well as other issues that needed to be addressed. Additionally, our prior audit recommended that the Authority ensure that it conducts annual inspections of all housing units and maintains copies of the related inspection reports in its files. Moreover, we noted that the annual inspections should be used by the Authority to assess unit conditions, lease compliance, and generate work orders, as necessary. In response to our prior audit, the Authority stated that its board had adopted a policy that requires annual inspections of all units to help identify potential problems and ensure lease compliance, and that it would keep copies of the annual inspections in the Authority's files.

Our follow-up review revealed that although the Authority has taken action to correct many of the deficiencies noted during our prior audit, it still has not conducted annual inspections of its residential units. We found that two of the units at the Brady Village Development identified as being vacant (5D and 3B) have been renovated by the Authority and are now occupied. Moreover, our follow-up inspection of the remaining four units found that the issues of noncompliance with Chapter II of the Sanitary Code have been corrected. We found that the Authority had applied for and received modernization funds to make improvements to all units at the Brady Village complex. The Authority's Maintenance Supervisor stated that work is ongoing and that units will be filled as they are completed and pass inspection.

We also inspected five housing units at the Brady Village development and found that certain units had been vacant since September 30, 2007. We noted several instances of noncompliance with the Chapter II of the Sanitary Code, including missing electric cover plates, possible mold in the basement, broken glass on the outside grounds, and walls that were in disrepair and in need of painting. The Executive Director and Maintenance Supervisor stated that these units are all part of the ongoing modernization project for the Brady Village development. Also, we were informed that the Authority has not conducted annual inspections of its residential units, and that the Authority's former Executive Director did not develop a policy requiring inspections and did not feel that annual inspections were necessary. Further, we were informed

that a policy is presently being developed that will require Authority personnel to conduct annual inspections of its units.

### ***Recommendation***

The Authority should ensure that it continues to seek and obtain the necessary funding from DHCD so that it may provide safe and sanitary housing in a timely manner for its tenants. In addition, the Authority should develop and adopt a plan to conduct annual inspections of its residential units to ensure that any physical and sanitary problems are corrected in a timely manner.

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

*AHA has and will continue to seek out and follow up all available funding from DHCD that AHA would qualify for. DHCD now funds our capital program via formula funding. As we are all aware this level of funding is grossly underfunded as a matter of the Commonwealth budget constraints.*

*AHA aggressively pursues and has succeeded in obtaining [Community Preservation Act] (CPA) grants from the city to augment certain capital needs. AHA has fostered positive and healthy relationships with the CPA to enhance the improvements within the properties.*

*AHA requested, in June 2010, an agreement with DHCD to split revenue with the leasing out of available space at AHA's central office facility. The area housed the Agawam Senior Center until the spring of 2009. (The layout lends itself to a senior daycare group.) The reason for this request was to create a revenue stream which would replenish the cash reserves to its recommended level. We are still awaiting formal approval from DHCD.*

*With respect to providing safe and sanitary housing in a timely manner, the audit notes a downward trend in our cash reserves over the years. This was directly the result of an aggressive campaign to tend to this very issue. The depletion of cash reserves to fund these improvements was to augment the lack of forthcoming DHCD funds. (This is understandable given the budgetary climate throughout the Commonwealth.)*

*The Executive Director, along with the Maintenance Supervisor, has set an annual inspection schedule for all facilities. Additionally, a checklist has been developed to be used during these annual inspections. This checklist will be reviewed by the DHCD Facilities Management Specialist during his March visit.*

### **b. Improvements Needed in Vacancy Turnaround Time**

Our prior audit disclosed that the Authority had excessive delays in preparing vacated apartments for occupancy and may have lost the opportunity to earn approximately \$57,287 in potential rental income. Specifically, it took the Authority an average of 155 days to prepare the vacant units, well beyond the recommended 21 days as defined by DHCD guidelines for maintenance. Our prior audit noted that there were 47 units with excessive vacancies during the

period October 1, 2004 to December 31, 2006. Six units were vacant for over a year, and one unit had been vacant for over two years. Also, 22 vacant units filled by the Authority took an average of 25 additional days to be reoccupied from the date they were ready for occupancy.

Our follow-up review of Authority vacancies showed that the Authority has not implemented procedures to ensure that all vacant units are occupied within DHCD's recommended 21-day timeframe to provide housing to eligible applicants in a timely manner and to earn much-needed revenue. Specifically, our audit disclosed that the Authority continues to have excessive delays in preparing vacated apartments for occupancy and may have lost the opportunity to earn approximately \$112,747 in potential rental income because it did not prepare and fill units on a timely basis. We found that there were a total of 49 units within the elderly and family programs that exceeded DHCD's guidelines by a total of 11,200 days, or an average of 229 days, as follows:

<u>State Housing Program</u>	<u>Number of Units</u>	<u>Excess of 21 Days</u>	<u>Potential Lost Income</u>
Chapter 667 (Elderly)	27	2,100	\$ 19,152
Chapter 200 (Family)	20	8,131	78,789
Chapter 705 (Family)	<u>2</u>	<u>969</u>	<u>14,806</u>
Total	49	<u>11,200</u>	<u>\$112,747</u>

In response to this issue, the Authority stated that it had implemented procedures to ensure that all vacant units are occupied within DHCD's 21-day time frame. At present, all Program 667 units are occupied, all Program 705 units are occupied, and 17 units of Program 200 are presently awaiting renovations, for which DHCD has provided funding.

During our review, the Executive Director and Maintenance Supervisor stated that the Authority does not have a policy for and has not conducted annual inspections of its dwelling units. However, the Executive Director stated that the Authority is presently developing a preventive maintenance policy that includes annual inspections of its units. The Executive Director also indicated that DHCD has provided modernization funding, unit renovations are presently ongoing, and units are rented out as they become completed.

Annual unit inspections are an important part of property maintenance through which Authorities can assess unit conditions, generate work orders, and minimize the cost of maintaining units. Moreover, by not complying with DHCD's 21-day unit turnaround

requirement and not conducting annual inspections, the Authority has adversely affected its overall financial condition and has delayed state-subsidized housing for its elderly and family applicants.

### ***Recommendation***

The Authority should continue to develop a preventive maintenance policy that requires it to conduct annual inspections of its units and maintain copies of the related reports in its files. In addition, the Authority should generate work orders as it deems necessary to ensure proper maintenance of each inspected unit. Moreover, the Authority should prioritize the implementation of procedures to ensure that all vacant units are reoccupied within DHCD's 21-day timeframe to provide housing to eligible applicants in a timely manner and to earn much-needed revenue.

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

*AHA is in the process of completing a comprehensive Preventative Maintenance Policy. The Facilities Management Specialist [FMS] from DHCD is scheduled arrive at AHA in March and work with the Executive Director and Maintenance Supervisor to finalize and draft the policy. The draft will then be reviewed and taken under consideration by the Board.*

*Works orders have been and are currently used on a daily basis. Work orders deriving from annual inspections will be handled in a timely fashion. Upon completion of the annual inspection, the checklist will convert to a work order within 24 hours for emergency issues and 48 hours for all others.*

*Move out inspection & checklist is already in place. Executive Director and Maintenance Supervisor are in the process of crafting the procedures to ensure reoccupation. This will be reviewed with FMS upon his arrival in March and formally implemented within 30 days of that review.*

### **c. Noncompliance with Tenant Selection Procedures**

Our prior review of the Authority's tenant selection procedures revealed that, contrary to DHCD policies and regulations, the Authority did not properly process or maintain tenant applications, leases, and waiting lists. Specifically, our prior audit noted the following issues:

- Applications were not stamped with date and time.
- Applications did not contain reviewer signatures.
- Incomplete applications were given control numbers.
- Ineligible applicants were placed on waiting lists.

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- Leases and addendums were missing in files.
  - Applicants deemed eligible on the Master Ledger were not included on the appropriate Waiting List Ledgers.
  - Applicant priority was incorrectly recorded on Waiting List Ledger.
  - Applicants appeared on the Waiting List Ledger but not on the Master List.
  - Applications deemed incomplete or not eligible appeared on Waiting List Ledgers.
  - Incorrect application dates were on the Waiting List Ledgers.
  - Other errors, including applicants placed on wrong Waiting List Ledgers.

Our follow-up review of the tenant selection process and related records showed that various improvements are still needed. Specifically, we noted the following conditions during our review:

- Two applications were not stamped with date and time.
- Two applications did not contain reviewer signatures.
- Three applications deemed incomplete on the Master Waiting Ledger were given control numbers and placed on the Electronic Program Waiting List.
- Two applicants had date and time stamps on the Master Ledger that differed from those recorded on the Electronic Program Waiting List.
- One applicant determined to be ineligible on the Master Waiting Ledger was placed on the Electronic Program Waiting List.
- Priority categories were not listed on 15 of 16 applications.
- Twelve applicants deemed eligible on the Master Waiting Ledger were not on the Electronic Program Waiting List.
- Applicants did not have their priority category listed on the Electronic Program Waiting List.
- The Authority did not maintain handwritten Program Waiting List Ledgers, contrary to 760 Code of Massachusetts Regulations (CMR) 5.16 promulgated by DHCD.

During our review, we noted that the Authority's former Executive Director purchased new Web-based software in April 2007 to assist the Authority in managing its waitlist ledgers and

tenant information. However, contrary to DHCD regulations, the Authority, at the direction of its former Executive Director, stopped maintaining hardcopy ledgers of its Program Waiting Lists. The 760 CMR 5.16(2) states:

*The LHA [Local Housing Authority] shall maintain permanent handwritten ledgers including a master file ledger and, waiting list ledgers. The LHA shall maintain the Department's prescribed on-line vacancy ledger in accordance with guidelines issued by the Department as they may be amended from time to time. Waiting lists and vacancy ledgers indicating the applicant's control number shall be considered public information; and, upon request shall be available for public inspection.*

According to the Authority's Tenant Coordinator, office employees at the Authority received a minimum amount of training on the new software. In addition, the Tenant Coordinator stated that when she accepted the position in 2007, she was learning the position and was not familiar with state regulations regarding waiting list management.

### **Recommendation**

The Authority should take the appropriate steps to comply with DHCD regulations. In addition, the Authority should maintain hardcopy program ledgers as required by DHCD.

### **Auditee's Response**

*The AHA is now in full compliance with CMR 760 5.16 that speaks to maintenance of a hand written ledger for all control numbers assigned to applications once the application is in the possession of the agency. Written procedures for date stamping all applications, assigning the priority or preference points (as qualified) have been drafted, by the new Executive Director, and now [are] part of active procedure. Documents submitted by the applicant are accepted and logged on a checklist. Third party verifications are then explored for the purposes of eligibility determination.*

*The AHA has taken steps and made adjustments to its tenant selection criteria. All steps required to be in compliance with DHCD guidelines are now in place and being actively followed. The Tenant Coordinator had been using the federal guidelines rather than the guidelines of the Commonwealth. All facets of the regulation specific to the financial health of the agency as well as protection for the tenants were presented to the tenant coordinator in two ways, verbal and written example, for each program's exact equation from income to deduction to percentage amount.*

*The Tenant Coordinator is now following the Commonwealth guidelines as trained, and continually supported, by the Executive Director. Any relevant training offered from DHCD will be attended by members of the AHA.*

### **d. Rent Determination Deficiencies**

Our prior audit report disclosed that 15 of 25 tenants reviewed were charged incorrect rents based on insufficient documentation of income and deductions claimed by tenants. In addition, the Authority did not have a copy of DHCD's Heat Allowance Schedule to substantiate the

related deductions given to tenants. In response to our prior audit report, the Authority stated that the purchase of new software has allowed the Authority to gain control over all aspects of tenant selections, as well as rent determination.

Our follow-up review found that although the Authority has improved its rent redetermination procedures, further improvements are still needed. Specifically, our review of 27 tenant files noted that six tenants were charged incorrect rents under DHCD regulations. We found that four tenants were overcharged a total of \$226 because the Authority did not include certain deductions in its tenant rent calculations. Additionally, two tenants were undercharged a total of \$58 because they received deductions for which they were not eligible.

The Tenant Coordinator indicated that she was still familiarizing herself with state regulations regarding income and deductions. The Executive Director stated that she was aware of the mistakes and that the tenants will be sent a “Notice of Rent Adjustment” effective May 1, 2010, and that appropriate paperwork has been drawn up and will be signed by the tenants. In addition, the Executive Director indicated that the Authority will monitor rent computations and ensure that formal training is provided to employees.

### ***Recommendation***

The Authority should continue to improve its procedures to ensure that rent determinations are monitored periodically and that formal training on rent determinations is given to its employees. This will help ensure compliance with DHCD rent determination regulations.

### ***Auditee’s Response***

*All rent determination procedures are now in accordance with DHCD guidelines. There have been no occurrences of rent determination errors since the training and reestablishing of guidelines were put in place.*

To ensure the accuracy of rent determinations the Executive Director selects several files twice monthly, at random, that have either an interim rent change or an annual recertification to verify procedural compliance.

### **e. Inadequate Inventory Controls**

Our prior audit revealed that contrary to DHCD requirements, the Authority lacked internal controls and accountability over its furniture, equipment, tools, and supplies. Additionally, we noted that the Authority does not have any inventory policies in place. Moreover, our review of the Authority’s inventory list noted that the locations of assets were not reflected on the list, three of nine items did not have property identification tags, one item could not be located, and

a tractor valued at \$5,734 had been sold according to an Authority maintenance staff person even though it still appeared on the listing. We also noted that the Authority did not conduct an annual physical inventory and had not made any adjustments to its inventory listing since October 2004. DHCD's Accounting Manual for State-Aided Housing Programs, Section 15, requires Authorities to account for all inventory additions or deletions as well as to update the physical listing on an annual basis. In addition, DHCD requires that a formal system of inventory of furniture and equipment be established by all Authorities. In response to our prior audit, the Authority stated it would conduct a complete physical count of its property and assets at the close of the fiscal year, noting location, condition, and value, in accordance with DHCD regulations and would do so annually.

Our follow-up review found that the Authority has not established written policies and procedures for the control of its furniture and equipment, or a dollar threshold for including items on its inventory. We also noted that the Authority has not taken a physical inventory of property and equipment as required to determine its physical existence and location and to detect missing, damaged, obsolete, or surplus property under its control.

During our review, we were provided a list of the Authority's property and equipment, which we found to be incomplete and not in compliance with DHCD policies. The list documented a description of the property and equipment but did not show location, tag numbers, model or serial numbers, or value. When questioned about the list, we were told that one of the maintenance men just took an inventory and listed what he could find. In addition, the Authority's Maintenance Supervisor stated that, contrary to the Authority's response to our prior audit, the Authority has not conducted an annual inventory.

Accordingly, there is currently a definitive lack of internal controls and accountability over furniture, equipment, tools, and supplies at the Authority. These deficiencies were due to the Authority's lack of policies and procedures and management's disregard for the importance of a well-maintained inventory system over property and equipment. Therefore, the Authority is unable to demonstrate what assets it has, the location of these assets, or what items may have been lost, stolen, removed from the Authority's property, or discarded due to their condition. Since the Authority's inventory was not up-to-date, the accuracy of the \$48,861 value reflected on its financial statements cannot be determined.

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**Recommendation**

The Authority must take steps to improve its inventory practices in regard to property and equipment under its control. Specifically, it should:

- Establish written inventory policies and procedures for its property and equipment.
- Conduct a complete physical count of its property and assets; record location, condition, and value; and apply/assign an asset number to items missing tags.
- Review all purchases made in the last 36 months to determine what it has in its possession, what it should actually possess, and what is missing or unaccounted for.
- Maintain a perpetual inventory record for all assets to ensure that controls are in place to safeguard and properly account for those assets going forward.
- Make provisions to ensure that the value and extent of its inventory is properly reflected and accounted for in its financial statements.

**Auditee's Response**

*The Executive Director and Maintenance Supervisor are currently in the process of establishing a specific inventory policy for all AHA equipment and material. This policy is expected to be submitted to the Board for review and approval by the April 2011 Board meeting.*

*The Executive Director and Maintenance Supervisor are currently in the process of conducting a physical inventory. All items are expected to be entered on to an inventory list which includes description, location, condition and value. All new purchases will also include date of purchase. Asset numbers will be assigned to all existing and future items.*

*Once inventory is completed and validated, any and all necessary adjustments will be reflected in our financial statements. Going forward, an annual inventory will be conducted and reconciled against the previous inventory and current fiscal year purchases. All necessary adjustments will be made annually to the financial statements as it pertains to relevant entries.*