



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-0749-3A

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
ORANGE HOUSING AUTHORITY
DECEMBER 1, 2004 TO OCTOBER 31, 2007**

**OFFICIAL AUDIT
REPORT
APRIL 4, 2008**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Orange Housing Authority for the period December 1, 2004 to October 31, 2007. 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. 2005-0749-3A). Based on our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 35-month period ended October 31, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

3

1. PRIOR AUDIT RESULTS RESOLVED

3

a. Expenditures Properly Documented: Our prior audit (No. 2005-0749-3A) of the Authority's financial activity identified \$8,163 in questionable expenditures made from the Community Building Fund and the Administrative Fund. Specifically, we noted that certain expenditures lacked adequate supporting documentation, and that checks for what appeared to be personal expenses were signed solely by the former Executive Director. Our follow-up review revealed that the Authority now requires two signatures on all checks and presents supporting documentation to board members prior to their approval of expenditures.

b. Inventory Controls Improved: Our prior audit revealed that the Authority had not established a formal internal control system for the inventory of its furniture and equipment. Our follow-up review determined that the Authority has complied with our prior audit recommendation by ensuring that its inventory control procedures are in full compliance with Department of Housing and Community Development (DHCD) requirements by establishing a comprehensive inventory listing, tagging all furniture and equipment, conducting a complete physical inventory annually, and reconciling the inventory list to its financial records.

2. PRIOR AUDIT RESULT UNRESOLVED - DELAYS IN RENTING VACANT UNITS

5

Our prior audit report revealed that unit vacancies exceeding DHCD's 21-workday guideline had increased during fiscal years 2003 and 2004, resulting in a lost opportunity to earn \$14,235 in potential rental income for the two fiscal years. Our follow-up review found that unit vacancies exceeded DHCD's 21-workday guideline by 4,879 days, resulting in additional lost potential rental income totaling \$38,320 for the period. We noted that the excess vacancies were due in large part to factors over which the Authority has limited control, such as a lack of eligible applicants and a high percentage

(83%) of vacancies in less desirable second-floor units. In its response, the Authority's Executive Director stated that she was in agreement with the Audit Results.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Orange Housing Authority for the period December 1, 2004 to October 31, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and 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.
- 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.
- The Authority's progress in addressing the issue noted in our prior audit report (No. 2005-0749-3A).

Based on our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 35-month period ended October 31, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

a. Expenditures Properly Documented

Our prior audit (No. 2005-0749-3A) of the Orange Housing Authority's financial activity identified \$8,163 in questionable expenditures made from the Community Building Fund and the Administrative Fund. Specifically, we noted that certain expenditures lacked adequate supporting documentation and that checks for what appeared to be personal expenses were signed solely by the former Executive Director, as follows

- Community Building Fund (CBF) Expenditures Totaling \$2,897: According to our prior audit report, the CBG checking account, which was opened on September 29, 1998 by the former Executive Director without the knowledge or approval of the Authority's Board of Directors, was used mainly to pay for tenants' monthly cable fees. The former Executive Director was the sole authorized signatory on that account. We reviewed the details of this account during the period December 18, 2001 through May 2, 2003 and found that \$8,477 was expended, of which \$2,897 (34%) lacked sufficient supporting documentation. Furthermore, our analysis of those disbursements identified 34 checks totaling \$1,632 that appeared to be for personal expenses such as clothing, jewelry, and books. We noted that no further expenditures had been made from the Community Building Fund since May 2003, and the Authority closed the account on November 24, 2004.
- Administrative Fund Expenditures Totaling \$5,266: We reviewed the Administrative Fund and concurred with the Department of Housing and Community Development's (DHCD) July 21, 2003 report that identified 33 expenditures, totaling \$3,499 and involving 10 payees, that lacked supporting documentation. We examined 78 expenditures in total, of which 39 (50%), totaling \$5,266, lacked supporting documentation. Although checks paid from this account required two signatories, the former Executive Director did not always provide supporting documentation to the second signatory when checks were approved for payment.

Our follow-up review noted that the Authority has taken the following steps to correct its prior deficiencies:

- Board approval is required before new bank accounts can be established.
- Two signatures are required on all checks.
- Supporting documentation must be presented to board members prior to their approval of expenditures.
- The Community Building Fund account was closed on November 24, 2004, and cable fees have since been deposited directly into the Administrative Fund.

During our follow-up review, we examined 35 expenditures and noted that they contained the required two authorized signatures (Executive Director and one board member). We further noted that all expenditures tested were supported by adequate documentation (e.g., invoices, bills, cancelled checks, accounts payable vouchers).

b. Inventory Controls Improved

Our prior review revealed that the Authority had not established a formal control system for the inventory of its furniture and equipment. We found that, contrary to DHCD regulations, the Authority did not have an up-to-date inventory listing. We reviewed all seven purchases totaling \$3,017 made during the prior audit period, consisting of five refrigerators, a stove, and a computer, and found that none of the items were recorded on the inventory list. In addition, although the Authority's inventory listing totals \$59,920, the amount reported on the Authority's September 30, 2004 financial statement was \$78,334, a variance of \$18,414. As a result, we noted that the Authority could not be assured that its assets were adequately safeguarded against loss, theft, or misuse. Furthermore, it could not identify when a physical inventory was last taken.

Our follow-up review determined that the Authority has complied with our prior audit recommendation to ensure that its inventory control procedures are in full compliance with DHCD requirements by establishing a comprehensive inventory listing, tagging all furniture and equipment, conducting a complete physical inventory annually, and reconciling the inventory list to its financial records.

The Authority currently uses the Public Housing Authority inventory control software to maintain its inventory. We tested a total of 16 inventory items (eight from list to location and eight from location to list) and found that all 16 items were properly accounted for and traced to their listed location. Moreover, we noted that the Authority conducted a physical inventory and that its October 31, 2007 Balance Sheet reflects furniture and equipment valued at \$13,400, which is in agreement with the Authority's inventory listing.

2. PRIOR AUDIT RESULT UNRESOLVED - DELAYS IN RENTING VACANT UNITS

Our prior audit report noted that unit vacancies exceeding DHCD's 21-workday guideline had increased during fiscal years 2002, 2003, and 2004, resulting in a lost opportunity to earn \$14,235 in potential rental income.

Our follow-up review found that unit vacancies exceeded DHCD's 21-workday guideline by 4,879 days, resulting in additional lost potential rental income totaling \$38,320 for the period. We noted that the excess vacancies were due in large part to factors over which the Authority has limited control, such as a lack of eligible applicants and a high percentage (83%) of vacancies in less desirable second-floor units, as follows:

<u>Fiscal Year</u>	<u>Number of Days Exceeding 21-Day Guideline</u>	<u>Total Potential Income Lost</u>	<u>Second-Floor Units</u>
2005	2,736	\$21,450	\$17,216
2006	1,620	\$12,700	\$12,410
2007*	523	\$4,170	\$2,124

*Through October 31

During our current audit period, the Authority received housing applications from 22 eligible elderly persons and had a total of 34 vacancies. As of October 31, 2007, the Authority had six vacancies and only four eligible elderly applicants. The Authority lacked eligible elderly applicants on the waiting list despite its attempts to encourage applications by advertising in area newspapers and contacting local social service agencies. The Authority's efforts are further hampered by the lack of public transportation accessible to tenants and the fact that the Town of Orange has newer, federally subsidized housing units that have larger living space and are therefore more attractive to potential applicants.

Recommendation

The Authority should continue to use advertising in a judicious and efficient manner. It should also consider marketing alternatives, such as open houses and information sessions at area senior citizen centers, to help attract applicants. Moreover, the Authority should work with public officials, at all levels, to increase its waiting list of eligible applicants and reduce vacancies.

Auditee's Response

The Orange Housing Authority understands that we have difficulties renting vacant units. We do discuss it at Board Meetings periodically and we continue to advertise in local newspapers.

Since we have a problem renting second floor units, we require any person stating a first floor unit is necessary, to supply the Housing Authority with documentation.