



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

*Making government work better*

Official Audit Report - Issued March 18, 2013

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## Winchester Housing Authority

For the period January 1, 2010 through December 31, 2011



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## INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of the Winchester Housing Authority for the period January 1, 2010 through December 31, 2011. 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 certain activities and functions for the purpose of determining their adequacy.

Based on our audit, we have concluded that, for the period January 1, 2010 through December 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested except for the following areas.

### *Highlight of Audit Findings*

- The Authority's Executive Director<sup>1</sup> was also a private attorney paid by the Committee for Public Counsel Services (CPCS), an agency of the Commonwealth, to provide legal services to indigent clients. Our audit found that in calendar years 2010 and 2011, the Executive Director logged more than 3,500 work hours per year for both agencies combined and was paid by both authorities for a total of more than \$156,000 in each year. The Authority's time records for this individual indicated that he worked 443 hours (23% of his total hours) for calendar year 2010 and 425 hours (21.5% of his total hours) for calendar year 2011 outside the Authority's normal business hours (8:00 a.m. – 4:00 p.m.). A comparison of Authority and CPCS records also showed 18 occasions where the Executive Director charged CPCS for court time that appeared to overlap with the hours he said he was also working at the Authority.
- Testing of the Authority's fiscal year 2010 and fiscal year 2011 operating reserves for its 400-1 (conventional housing) program disclosed that the operating reserve balances during our audit period were far below the Department of Housing and Community Development's (DHCD's) recommended minimum amounts.
- Our inspection of eight of the Authority's rental units identified 10 instances of noncompliance with the State Sanitary Code (105 Code of Massachusetts Regulations 410.00) at three of these units, such as peeling paint, ceiling water stains, roof deterioration, exterior siding falling off, a walkway in disrepair, a collapsing fence, rubbish and debris in a yard, and disintegrated caulking in a kitchen sink. After we informed the Authority of the conditions, it corrected all noted violations in a timely manner, except the necessary roof and siding replacement, which was scheduled through a DHCD modernization grant.

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<sup>1</sup> Authority officials informed us that the Executive Director who was employed by the Authority during our audit period retired on October 4, 2012. All mentions of the Authority's Executive Director in our report refer to this individual and not the Authority's current Executive Director.

- Our review of the Authority's inventory controls disclosed that there is no up-to-date fixed asset ledger that accurately lists all the Authority's inventorial furniture and equipment. DHCD's "Accounting Manual for State-Aided Housing Programs" requires each local housing authority to maintain a computer database or manual record card for all furniture and nonexpendable equipment and to annually prepare a physical inventory list for comparison to the fixed asset record.
- The Authority paid a tenant \$200 per month for trash disposal and minor groundskeeping services totaling \$2,400 per year. A competitive solicitation was never obtained for such services; a contract was not executed; and the required tax forms were not prepared

### ***Recommendations of the State Auditor***

- In the future, the Authority's contracts with its Executive Director should specify the days and hours required to be worked, most of which should be during normal business hours at the Authority's place of business. We also recommend that, in the future, the Authority require its Executive Director to formally disclose all outside employment to its Board of Commissioners.
- The Authority needs to continue to solicit DHCD for an increase in funding that would increase its operating reserve balances to the minimum recommended amounts set forth in the DHCD's Budget Guidelines.
- The Authority should complete roof and exterior siding replacement as scheduled, and endeavor to prevent or repair any maintenance issues that arise, per the requirements of DHCD's Property Maintenance Guide, so that the Authority provides its tenants with safe and sanitary housing.
- The Authority should create a new inventory ledger that includes all preexisting and newly purchased inventory items, with asset and control numbers and the physical location of each item. All inventory items need to be properly tagged with asset control numbers that can be traced back to the inventory ledger.
- All purchases of goods and services over \$2,000 annually need to follow the Authority's purchasing policy and be placed out to bid as required. For services for which it pays \$600 or more, the Authority should file IRS Tax Form 1099-MISC to the service provider and appropriate tax agencies.

### ***Agency Progress***

- The Authority indicated it will review the payroll records and, if discrepancies are found, reduce any money owed the Executive Director for accumulated sick and vacation time. The Authority has engaged a payroll service to maintain the earned hours for each employee and in the future will perform yearly evaluations of its Executive Director.
- The Authority's interim Executive Director stated that he will work with the Authority's Fee Accountant to solicit funds from DHCD to bring the Authority's operating reserve up to the

minimum level. Our review of the Authority's unaudited financial statements for the year ended June 30, 2012, indicated that the Authority's operating reserve had in fact increased so that it was above the minimum required level.

- The Authority indicated in its response that it continues to work to correct deficiencies that are a result of delayed maintenance due to DHCD's funding shortfalls and that it will correct items as they are funded through DHCD's formula funding Capital Planning System. The Authority will apply to DHCD for emergency funds as necessary. The Authority's interim Executive Director also gave us a certificate of completion for the installation of a new roof and siding at the Cross Street location. In addition, we visited the location and viewed the new roof and siding.
- The Authority prepared an updated electronic based inventory of its fixed assets with the required information.
- The Authority issued an IRS 1099-MISC income information form to a tenant whom it had been paying for groundskeeping services, and it will continue to file that form in the future.

## **OVERVIEW OF AUDITED AGENCY**

The Winchester Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority has 112 one-bedroom apartments located at Westley Street and Palmer Street for elderly and handicapped residents (Chapters 667-1 and 667-2) and seven family apartments, at multiple scattered sites (Chapter 705), composed of two-, three-, and four-bedroom units. The Authority has a five-member Board of Commissioners overseeing the daily operation of the Authority's Executive Director, two administrative staff members, and one maintenance worker.

## **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 Winchester Housing Authority for the period January 1, 2010 through December 31, 2011. 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, creation of waiting lists, tenant rent redeterminations, and receivables; (2) housing unit inspections; (3) contract procurement, including the procurement of subcontractors within the maintenance and groundskeeping unit; (4) payroll, travel, and fringe benefits; (5) property and equipment; (6) cash management and investment policies; (7) Department of Housing and Community Development (DHCD) approved budgets versus actual expenditures; (8) level of need for operating subsidies and operating reserves; and (9) Authority expenditures.

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. To obtain our evidence, we utilized nonstatistical, judgmental sampling in the testing of various disbursements and contract procurements; areas of income, including tenant selection procedures, unit vacancy records, tenant rent calculations; and tenant unit site inspections. We identified the quantities of samples tested, as it relates to the population, and drew conclusions on the quantity of tests performed. For testing in other areas, such as payroll and inventory, we decided to test 100% of the population due to the internal control risk. Our rationale for the selection of samples was based on auditor judgment, using such criteria as: (1) including transactions at various time intervals throughout the audit period, (2) likelihood of an error based on the details of the transactions, and (3) materiality of the transaction as it relates to the mission of the Authority. 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 assessed internal controls and identified a subset of key controls that we tested to determine whether the process utilized by the Authority to meet its objectives is reasonable. The key controls we tested were for proper oversight and monitoring of Authority

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disbursements, including contract procurement, income, unit inspections, payroll, and inventory controls. Based on our testing, we assessed the internal control risk as low, and selected samples for our substantive tests consisting of the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with 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.
- Tenant 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 and to determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Procedures for making payments for payroll, 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 requirements.
- 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 budget for each fiscal year in comparison with actual expenditures to determine whether line-item and total amounts 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.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.

Based on our audit, we have concluded that, except for the issues addressed in the Audit Findings section of this report, for the period January 1, 2010 through December 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

## AUDIT FINDINGS

### 1. THE AUTHORITY'S EXECUTIVE DIRECTOR MAY HAVE PROVIDED LEGAL SERVICES TO CLIENTS DURING HOURS WHEN HE WAS ALSO BEING PAID BY THE AUTHORITY

The Executive Director of the Winchester Housing Authority was also a private attorney who provided legal services to indigent clients. These services were paid for by the Committee for Public Counsel Services (CPCS), an agency of the Commonwealth. CPCS oversees the provision of legal representation to indigent persons in criminal and civil court cases and administrative proceedings in which there is a right to counsel. According to CPCS, the Executive Director accepts appointments only in civil cases and is certified to represent parties in children and family law matters and mental health proceedings.

The Executive Director's time records for the Authority and hours billed to CPCS for calendar years 2010 and 2011 are as follows:

<u>Calendar Year</u>	<u>CPCS Hours</u>	<u>Authority Hours</u>	<u>Total Hours</u>
2010	1,787	1,929	3,716
2011	1,606	1,977	3,583

For calendar years 2010 and 2011, the Authority and CPCS paid the following amounts to the Executive Director:

<u>Calendar Year</u>	<u>CPCS Payments</u>	<u>Authority Earnings</u>	<u>Total Yearly Income</u>
2010	\$89,961	\$68,483	\$158,444
2011	84,004	72,205	\$156,209

DHCD's Executive Director Salary & Qualification Schedule (Public Housing Notice 2007-6) states, in part:

*The Department [DHCD] requires that Executive Directors work during normal business hours (Monday – Friday 8 a.m. to 6 p.m.) Time spent at night or weekend meetings which are directly related to Authority business may be substituted for weekday hours at the discretion of the board and subject to DHCD approval.*

Based on this, the Authority's contracts with the Executive Director should have been negotiated using these DHCD guidelines, which limit work to normal business hours except for meetings. However, we reviewed the contracts executed between the Executive Director and the Authority from 2004 to 2011 and found that they did not specify when these hours had to be worked even though the Authority's normal business hours are from 8:00 a.m. to 4:00 p.m.<sup>2</sup> Furthermore, before September 15, 2010, the contracts did not specify the total number of work hours required per week.

Our analysis of the Authority's time records for the Executive Director showed that he worked 443 hours (23% of his total work hours) for calendar year 2010, and 425 hours (21.5% of his total work hours) for calendar year 2011, outside the Authority's normal business hours. Authority and CPCS records also showed that the Executive Director worked 15 or more hours per day (Authority and CPCS combined) on 60 occasions.

Billing records provided by CPCS showed hours charged by the Executive Director for in-court and out-of-court time. We compared the in-court hours provided by CPCS to the time records obtained from the Authority, and we identified 18 occasions where the Executive Director charged CPCS for court time that appeared to overlap with the hours he said he was also working at the Authority, as indicated below:

Date	In-Court Hours	Authority Work Hours	Authority Work Hours Credited
June 15, 2010	3.5	8:00 a.m. to 10:00 p.m.	14
September 8, 2010	0.2	8:00 a.m. to 6:00 p.m.	10
October 26, 2010	0.3	8:00 a.m. to 6:00 p.m.	10
October 27, 2010	0.3	8.00 a.m. to 4.00 p.m.	8
October 28, 2010	0.3	8.00 a.m. to 4.00 p.m.	8
November 2, 2010	0.1	8:00 a.m. to 6:00 p.m.	10
November 18, 2010	0.4	8:00 a.m. to 7:00 p.m.	11
February 23, 2011	0.5	8:00 a.m. to 6:00 p.m.	10
March 4, 2011	2.0	8:00 a.m. to 4:00 p.m.	8
March 22, 2011	0.5	8:00 a.m. to 4:00 p.m.	8

<sup>2</sup> At the audit's exit conference, the Authority provided us with an undated personnel policy document that listed standard business hours as 8:00 a.m. to 6:00 p.m. However, our calculations in this report are based on the Authority's "normally posted business hours" of 8:00 a.m. to 4:00 p.m.

Date	In-Court Hours	Authority Work Hours	Authority Work Hours Credited
May 17, 2011	0.2	8:00 a.m. to 6:00 p.m.	10
June 9, 2011	0.2	8:00 a.m. to 6:00 p.m.	10
June 29, 2011	0.2	8:00 a.m. to 7:00 p.m.	11
August 31, 2011	0.2	8:00 a.m. to 6:00 p.m.	10
November 21, 2011	0.5	8:00 a.m. to 6:00 p.m.	10
November 22, 2011	0.5	8:00 a.m. to 6:00 p.m.	10
November 28, 2011	0.3	8:00 a.m. to 6:00 p.m.	10
November 30, 2011	0.5	8:00 a.m. to 6:00 p.m.	10

This data suggests that it would be difficult for the Executive Director to appear in court given the hours he indicated he was working for the Authority.

The Authority employs two staff assistants and one maintenance person, who are required to punch a time clock to record their hours worked. However, the Authority's Executive Director is allowed to manually enter his hours worked onto a time card. Moreover, although the Authority is currently in the process of obtaining an outside payroll company to control the work and leave time database, during our audit period the database was administered solely by the Executive Director. We reviewed the Executive Director's time cards and noted the following discrepancies: (1) 30 errors in which the time card did not match the in-house computer database that records hours worked and leave time taken; (2) four instances where vacation and sick days were not properly deducted; and (3) four mathematical errors.

Our audit also determined that the Executive Director earned less in calendar year 2010 than his contracts indicate. His contracts with the Authority, which crossed fiscal and calendar years, indicated that his earnings in calendar year 2010 should have been \$70,512, but his gross earnings per the payroll company's summary record showed gross earnings of \$68,483 (a difference of \$2,029). We obtained detailed earnings records from the payroll company and determined that the Executive Director was paid less than his contractual salary amounts for 20 weeks during calendar year 2010. A review of his corresponding time records showed that he averaged 37.5 hours per week (work, vacation, or sick time) for those 20 weeks. One of the Authority board members told us that because of budget problems, the Executive Director voluntarily took a reduction in pay.

The Executive Director, like other housing authority employees, is considered a municipal employee for conflict-of-interest purposes. Therefore, it does not appear that his legal work for CPCS violated Chapter 268A of the Massachusetts General Laws (Conduct of Public Officials and Employees) unless he was representing Authority personnel or tenants of the Authority. However, even if there is no conflict-of-interest violation, the Executive Director's work for CPCS was not in the best interest of the Authority because the Executive Director should be conducting housing authority business during the Authority's normal business hours. It should be noted that CPCS has initiated its own investigation and audit of the Executive Director and has suspended his payments and authority to accept assignments pending completion of that audit.

### ***Recommendation***

In the future, the Authority's Board of Commissioners should prepare contracts for the Executive Director that, in accordance with DHCD guidelines, specify the days and hours required to be worked, most of which should be during normal business hours at the Authority's place of business. We also recommend that, in the future, the Authority require its Executive Director to formally disclose all outside employment to its Board of Commissioners.

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

*The WHA [Winchester Housing Authority] no longer employs the Executive Director noted in this report as he retired at the end of the day on October 4, 2012. As noted in this audit report, the Executive Director was not employed by both agencies: he was under contract as ED for the Winchester Housing Authority and was an independent contractor to the other agency [CPCS] and was issued a 1099 form at the end of the year. The audit report states that there is no conflict of interest.*

*In response to the . . . instances cited in the audit report where the former ED worked more than one hour at both agencies, there are only 2 dates which the auditors noted . . . that the ED's records show that he was working at both agencies. The other . . . instances noted were generally for 0.2 hours and on only 3 [sic] occasions when the time sheet shows 0.5 hours worked at both establishments. After the WHA completes its investigation, the payroll records will be adjusted if there are discrepancies found and there are hours/money owed to the WHA by the former ED.*

*The auditors also noted that the ED worked outside the normally posted business hours of 8 AM – 4 PM. The most recent contract between the WHA and the ED requires that the normal work week will consist of a minimum of 37.5 hours. The Board has traditionally allowed a flex-time schedule for employees as long as the employees work the total number of required hours each week. The former ED was allowed to work a flex-time schedule and the records confirm that he worked the total number of hours required each week. During the normal performance of the ED duties, he would:*

- *Travel to area communities to perform Section 8 HQS inspections for the vouchers administered by the WHA;*
- *Inspection of Section 8 units for the convenience of tenants at times other than normal work week hours;*
- *Attend nighttime Board meetings at least on a monthly basis;*
- *Attend additional nightly meetings with other local governmental bodies, agencies and/or organizations, as required.*

*In response to the mathematical errors noted in the database, the WHA is in the process of confirming and correcting any discrepancies. Will adjust any money owed to WHA by the former ED for vacation and sick time. As per the recommendation by the audit, the WHA has engaged the payroll service to maintain the earned hours for each employee.*

*The WHA has performed performance evaluations of the former Executive Director's at the renewal of each ED contract and on each occasion the performance was satisfactory. In the future, the WHA will review an ED's performance on a yearly basis.*

#### **Auditor's Reply**

As noted in our report, the payroll data for the 18 instances in question suggest that it would be difficult for the Executive Director to appear in court given the hours he indicated he was working for the Authority. Also, because the Executive Director manually entered his own hours on a time card and was also responsible for administering this attendance activity, no independent checks and balances existed within this process to ensure its integrity. As noted in our report, we found 30 errors in which the Executive Director's time card did not match the in-house computer database that records hours worked and leave time taken; four instances where vacation and sick days were not properly deducted; and four mathematical errors.

We also believe that, given DHCD's guidance in this area, the Authority's board was remiss in executing contracts that did not require that the Executive Director work at the Authority generally during business hours. Public Housing Notice 2007-6 only allows flex time for meetings after normal business hours, subject to the approval of the Authority's board and DHCD. Therefore, we again recommend that, in the future, the Authority's contracts with its Executive Director specify the days and hours required to be worked, most of which should be during normal business hours at the Authority's place of business. Provisions regarding flex time can be made to accommodate board meetings and other situations.

## 2. INADEQUATE OPERATING RESERVES

The Authority did not meet the minimum reserve amounts for its 400-1 program either in fiscal year 2010 or in fiscal year 2011. The operating reserve balance for fiscal year 2010 was \$22,949, with a recommended minimum amount of \$53,058. For fiscal year 2011, the operating reserve balance was \$5,741, with a recommended minimum amount of \$55,240. The Department of Housing and Community Development (DHCD) Budget Guidelines indicate that the minimum operating reserve level must be no less than 20% of the allowed maximum operating reserve.<sup>3</sup>

Low operating reserves may hinder the Authority in its mission to properly provide its tenants with safe and sanitary housing. The Executive Director stated that he is constantly soliciting DHCD for increase of funds, yet DHCD fails to provide the Authority with an increase in funding.

### ***Recommendation***

The Authority needs to continue to solicit DHCD for an increase in funding that would increase its operating reserve balances to the minimum recommended amounts set forth in DHCD's Budget Guidelines.

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

*The new Executive Director will work with the new Fee Accountant to solicit funds from DHCD to insure that the operating subsidy received will help to improve the WHA's operating reserve balance and will work toward having the recommended minimum reserve balance.*

### ***Auditor's Reply***

Our review of the Authority's unaudited financial statements for the year ended June 30, 2012 showed that the Authority's operating reserve had increased to 25% of the maximum reserve level, which is above DHCD's minimum acceptable level.

## 3. NONCOMPLIANCE WITH STATE SANITARY CODE

Our inspection of eight out of the Authority's 119 state-aided housing units disclosed that three of those units failed to provide safe and sanitary housing to its tenants. We found 10 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint, ceiling water

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<sup>3</sup> Maximum operating reserve is defined as 50% of the total budgeted operating expenditure.

stains, roof deterioration, exterior siding falling off, a walkway in disrepair, a collapsing fence, rubbish and debris in a yard, and disintegrated caulking in a kitchen sink.

The DHCD Property Maintenance Guide, Chapter 3(F), requires that inspections of dwelling units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Although the Authority showed us inspection reports showing that inspections had been completed on an annual basis, it appears that the areas of noncompliance either were overlooked or had deteriorated since the last inspection.

During our audit, we discussed the areas of noncompliance with the Authority's Executive Director. In response, the Authority corrected all noted violations on a timely basis, with the exception of the necessary roof and siding replacement. The Authority scheduled these repairs during our audit, after receiving a modernization contract from DHCD to fund the major construction the repairs would require.

### ***Recommendation***

The Authority should complete the roof and exterior siding replacement as scheduled and endeavor to prevent or repair conditions that would violate the State Sanitary Code.

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

*The issues noted on the 4/12/2012 inspection of units performed by the state auditors during their site visit are as follows:*

<i>Address</i>	<i>Work Noted</i>	<i>WHA completed work on:</i>
<i>Westley St.</i>	<i>Needs caulking on seals at kitchen sink</i>	<i>4/15/2012</i>
<i>Palmer St.</i>	<i>Water stains on bathroom ceiling</i>	<i>4/15/2012</i>
	<i>Water stain on closet ceiling</i>	<i>4/15/2012</i>
<i>Cross St. – Interior</i>	<i>Water damage/paint peeling on kitchen ceiling</i>	<i>4/15/2012</i>
	<i>Water stains on bedroom ceiling</i>	<i>4/15/2012</i>
<i>Cross St. – Exterior</i>	<i>Roof deteriorated and leaking (on bid docs)*</i>	<i>*Work to start</i>
	<i>Exterior siding falling (on bid docs)*</i>	<i>*On 11/1/2012</i>
	<i>Walkway/stairs deteriorated</i>	<i>4/15/2012</i>
	<i>Fence collapsing and deteriorating</i>	<i>4/15/2012</i>
	<i>Rubbish and debris in yard</i>	<i>4/15/2012</i>

*... Items noted were corrected by the WHA maintenance staff within 2 business days. We respectfully request that the noted deficiencies be deleted from the report as the work was completed during the audit period and the violations had occurred after the WHA's inspection of units. It is important that tenant repair requests be directed to the office in a timely manner and that the office be notified if repairs are not effectuated properly or expeditiously.*

*As noted in the audit report, the deteriorated roof and missing siding are part of a bid project for . . . Cross Street. This work has been bid and awarded with a start date on or about November 1, 2012.*

*The WHA continues to work to correct deficiencies that are a result of delayed maintenance due to DHCD's funding shortfalls and the WHA will correct items as funded through DHCD's formula funding Capital Planning System. The WHA will apply to DHCD for emergency funds as necessary.*

### **Auditor's Reply**

After our field work ended, the Authority's interim Executive Director gave us a certificate of completion for the installation of a new roof and siding at the Cross Street location. In addition, we visited the location and viewed the new roof and siding. Based on this, we commend the Authority for making the repairs to the units cited above. However, since we inspected fewer than 7% of the Authority's state units and found the problems noted above, and these problems were only corrected after they were identified through our inspections, we believe that it is appropriate for us to report on this matter and again recommend that the Authority take the measures necessary to identify and address any violations of the State Sanitary Code in a timely manner.

## **4. FIXED ASSET RECORDS NEED IMPROVEMENT**

There is no up-to-date fixed asset ledger that accurately lists all the Authority's inventory of furniture and equipment items. DHCD's "Accounting Manual for State-Aided Housing Programs" requires each local housing authority to maintain a computer base or manual record card for all furniture and nonexpendable equipment and to annually prepare a physical inventory list for comparison to the fixed asset record.

Before calendar year 2010, the Authority kept its fixed asset record on a 3.5-inch floppy disk and updated this record when it made purchases or removed items that it traded in or that were obsolete or broken. When the Authority upgraded its computer system, it was no longer able to access the disk, and the disk succumbed to corruption. Since 2010, the Authority has maintained a handwritten list of assets it purchased since then, but this list does not contain any cost

information. Failure to create or maintain an inventory ledger in accordance with DHCD's requirements could lead to lost, misappropriated, or stolen assets.

***Recommendation***

The Authority should create a new and accessible inventory ledger that includes all preexisting and newly purchased furniture and non-expendable equipment, with asset and control numbers, historical costs, and the physical location of the items. All inventory items need to be properly tagged with asset control numbers that can be traced back to the inventory ledger.

***Auditee's Response***

*During 2010, the administrative clerk that maintained the records was absent from work due to a work injury. The computer system was upgraded during her absence and the inventory ledger had been maintained on a 3.5 floppy disk. The new computers did not accept 3.5 floppy disks and so the administrative clerk had the floppy disk converted to a CD. The auditors noted that the 3.5 floppy was corrupted, which is an inaccurate statement. The WHA merely had to have the 3.5 floppy disk converted to a CD.*

*The one page summary sheet noted by the auditors was a list made by the administrative clerk as a confirmation of purchases made during her absence. The recommendation [of] a new and accessible ledger with all furniture, equipment, asset and control number, historical costs and the physical location of the items was completed during the on-site visit by the auditors and was reviewed with them. The WHA respectfully requests that this finding be removed from the audit report.*

***Auditor's Reply***

Contrary to what the Authority states in its response, the only items related to the Authority's inventory that were provided to the Office of the State Auditor (OSA) during our field work were an inaccessible (corrupted) computer floppy disk and a one-page sheet showing recent purchases. No compact disc (CD) or manual inventory ledger was given to the auditors. On the last day of our audit field work, the Authority provided us with a CD showing its inventory. However, the CD indicated that it had been prepared after we had concluded our field work and therefore confirmed that this inventory record did not exist during our audit period.

**5. PAYMENTS MADE TO TENANT WERE NOT IN COMPLIANCE WITH AUTHORITY PURCHASING POLICY AND INTERNAL REVENUE SERVICE REPORTING REQUIREMENTS**

We found that the Authority pays a tenant \$200 per month for trash disposal and minor groundskeeping services totaling \$2,400 per year. However, contrary to its purchasing policy, the Authority did not solicit competitive bids or execute a formal, written contract for these services.

In addition, contrary to Internal Revenue Service requirements, the Authority did not issue a 1099-MISC income information form to this individual as required by the IRS's instructions for that form, which require that the form be filed for each person to whom at least \$600 is paid for services in a given year. As a result, the Authority cannot ensure that it obtained these services for the lowest possible price. Moreover, because it did not adhere to the IRS requirement, the Authority could be subject to unnecessary penalties and interest.

The Authority's purchasing policy states, in part:

*All purchases of goods or services involving a sum total in excess of \$2,000 shall be made in contract form only after invitations for bids are publicly advertised . . . or invitations are mailed to at least 5 eligible vendors.*

Authority officials told us that over three years ago, the Authority laid off some groundskeeping personnel and had therefore hired this tenant to perform these services both to obtain these services less expensively and to help him by providing him with employment. However, the Authority should have followed its own policy as well as IRS reporting requirements when procuring these services.

### **Recommendation**

All purchases of goods and services above \$2,000 should be made in accordance with the Authority's purchasing policy and be placed out to bid as required. In addition, the Authority should file 1099-MISC income information forms for any payments over \$600 that it makes to persons for services.

### **Auditee's Response**

*The auditor's report did not find any violation of M.G.L., Chapter 30B. It did note that the Purchasing Policy for the WHA required that goods or services in excess of \$2,000 shall be in contract form after invitations for bids are publicly advertised or are mailed to at least 5 eligible vendors. The WHA pays a stipend to a tenant of \$200 per month for trash disposal and minor groundskeeping work. The WHA did not issue a 1099 form to the tenant prior to 2011.*

*The ED requested any interested tenant who would like to earn a stipend from the WHA for the proposed trash disposal/groundskeeping work provide the ED with their availability/cost for the work solicited. The ED had one respondent for the trash disposal/groundskeeping work with a stipend of \$200 per month to perform the necessary work. The auditor's report did not find any violation of M.G.L., Chapter 30B but did note that the work did not conform to the internal WHA's Purchasing Policy.*

*In response to the lack of a 1099-Miscellaneous form issued to each person who earned more than \$600 in rents or services . . . the WHA has corrected the error and has issued a 1099-Misc form as required and will continue to do so in the future.*

***Auditor's Reply***

We agree that our audit did not identify a violation of Chapter 30B of the General Laws. However, the Chapter 30B Manual developed by the Office of the Inspector General indicates that an organization may have a local rule that requires formal, advertised competition at lower levels than those set forth in Chapter 30B and that the organization's rule must be followed. Therefore, because the Authority promulgated the rule described in its purchasing policy, it is bound by this policy and should take measures to ensure that all procurements are conducted in a manner consistent with this policy.