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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
HADLEY HOUSING AUTHORITY
OCTOBER 1, 2006 TO DECEMBER 31, 2008**

**OFFICIAL AUDIT
REPORT
JUNE 18, 2009**

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INTRODUCTION

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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 Hadley Housing Authority for the period October 1, 2006 to December 31, 2008. 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. 2006-0670-3A). Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended December 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

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Our prior audit, which covered the period October 1, 2004 to February 28, 2006, disclosed that (a) internal controls over payroll needed improvement and (b) vacancy delays caused the Authority to lose potential rental revenue. Our follow-up review revealed that although the Authority had taken steps to address some of these issues, further action was required on others, as discussed below.

a. Internal Controls over Payroll

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Our prior audit revealed that the Authority needed to strengthen its internal controls over payroll expenses. Specifically, we found that the Executive Director did not maintain timesheets, employee leave records were not maintained, the Authority's compensatory time policy needed to be strengthened, and the Executive Director had been operating without a contract from June 2002 through February 2006. Our follow-up review noted that the Authority had implemented an adequate compensatory time policy and that the Department of Housing and Community Development (DHCD) approved a contract for the Executive Director which runs through September 30, 2011. However, although the Executive Director now maintains timesheets, a supervisor does not approve them. Further, we found that although employee leave records are now maintained, the accrual of employee leave time is incorrectly calculated. In response to our report, the Executive Director stated that her timesheets are now signed and approved by a board member. Employee leave records have been set up on computer software to provide accuracy and conformity with the Authority's Personnel Policy and Executive Director's contract.

b. Excess Vacancy Delays

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Our prior review of the Authority's vacant unit turnaround time disclosed that nine units were not filled within the timeframe established by DHCD, which requires housing authorities to have vacated units reoccupied within 21 working days. The nine units were

unoccupied for a total of 485 working days beyond DHCD's 21-day limit. Consequently, between October 1, 2004 and February 28, 2006, the Authority may have lost the opportunity to earn approximately \$4,875 in potential rental income. Our follow-up review disclosed that reoccupying vacant units within DHCD's guidelines remains an issue. Specifically, during the current audit period, the Authority had excess vacancy delays of 206 days, which resulted in the lost opportunity to earn potential rental income of \$2,200. In response to our report, the Authority's Executive Director stated that the turnaround time for filling vacant units may have been impacted by several factors. During this audit period, maintenance hours were cut from 40 to 30 hours a week. Many times, units were in such bad condition that floors needed to be redone, bathrooms totally renovated, and extensive cleaning and ordering of new appliances occurred. She further stated that every effort is made to occupy these units as quickly as possible.

2. INSPECTIONS NOT CONDUCTED **5**

Our current audit noted that, contrary to DHCD regulations, the Authority did not (a) conduct required annual unit inspections in 2008 and (b) verify its fixed assets through inventory inspections, as discussed below.

a. Unit Inspections Not Performed in 2008 **6**

Our review of Authority tenant files determined that housing units were not inspected in 2008 and that the last inspections occurred in December 2007. DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspections of Authority 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. In response to our report, the Authority's Executive Director stated that apartment inspections are being completed at this time and will be inspected again at the end of 2009.

b. Inventory Inspections Not Performed **6**

Our current audit noted that the Authority did not have records indicating that it complied with DHCD's annual inventory requirement, and the Executive Director confirmed that none had been taken. DHCD's Accounting Manual requires Authorities to annually verify their fixed assets and to affix property tags to assets on their capital and control inventory items as well as on all Authority-owned refrigerators and stoves. We also noted that the inventory tags affixed to the Authority-owned refrigerators and stoves were not readily visible. Finally, our audit noted that although the Authority did have an inventory control policy, its provisions were not followed. In response to our report, the Authority's Executive Director stated that an inventory report is in place and inventory tags have been placed on stoves and refrigerators where they can easily be seen. Also, the Authority's inventory is being revised and updated.

3. QUESTIONABLE MODERNIZATION PAYMENTS **7**

Our audit found that the Executive Director and an Authority maintenance worker were compensated a total of \$2,824.70 for work performed on the Authority's modernization project. However, neither provided adequate documentation to support their having worked extra hours beyond their regularly scheduled hours. In response to our report, the Authority's Executive Director stated that a proper request was made to DHCD

requesting the administration fee and that DHCD authorized the request and never indicated that a breakdown of hours or work done should be submitted, although in the future this will be done even if DHCD does not require it.

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 Hadley Housing Authority for the period October 1, 2006 to December 31, 2008. 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 verify 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's 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.
- Development awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- Modernization awards to verify that contracts were awarded properly and funds were received and disbursed in accordance with the contracts and DHCD policies and to determine the existence of any excess funds.
- The receipt and expenditure of Community Preservation Act funds under Chapter 44B of the General Laws.
- The process of recognizing and funding the Authority's Local Tenant Organization under 760 Code of Massachusetts Regulations 6.07.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0670-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended December 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

Our prior audit of the Hadley Housing Authority (No. 2006-0670-3A), which covered the period October 1, 2004 to February 28, 2006, disclosed (a) internal controls over payroll needed improvement and (b) vacancy delays caused the Authority to lose the opportunity to earn potential rental revenue. Our follow-up review revealed that although the Authority had taken steps to address some of these issues, further action was required on others, as discussed below.

a. Internal Controls over Payroll

Our prior audit disclosed that internal controls over payroll needed improvement. Specifically, we found that the Executive Director did not maintain timesheets, employee leave records were not maintained, the Authority's compensatory time policy needed to be strengthened, and the Executive Director operated without a contract from June 2002 through February 2006.

Our follow-up review revealed that the Authority had adequately addressed some of these issues. Specifically, we noted that an adequate compensatory time policy has been implemented and that Authority personnel are adequately maintaining the compensatory time accrual log. In addition, we noted that the Executive Director has an approved contract that runs through September 30, 2011.

However, our follow-up review found that improvements were needed in the following areas:

- Our audit noted that although timesheets for the Executive Director are now maintained, a supervisor does not approve them. A review of timesheets submitted by the Executive Director for the audit period found that she signed her name on both the employee and supervisor line. Without evidence of proper supervisory approval in the form of a board member's signature, there is inadequate assurance that the Executive Director's timesheet accurately reflects her hours worked.
- Our current audit also noted that although the Authority now maintains employee leave records, the leave time accrual balances for the two employees who earn leave time were not accurately calculated. Specifically, the recorded sick time of the Executive Director was understated by 80 hours, whereas the sick time of the maintenance worker was understated by 123 hours. As a result, the accrued compensated absences on the Authority's fiscal year 2008 balance sheet are understated by \$2,818. The fiscal year 2008 financial statement

submitted to DHCD reflects an accrued liability for compensated absences of \$888; however, the value should be \$3,706.

Recommendation

The Authority should ensure that the Executive Director's timesheets are reviewed and approved by a board member. In addition, the Authority should develop controls to ensure that employee benefits, including vacation time, sick leave, personal leave, and compensatory time, are calculated in accordance with its Personnel Policy or applicable employment contract. Moreover, the Authority should take steps to ensure that the sick leave balances of the Executive Director and maintenance man are adjusted to reflect their proper balances. Also, the Authority should submit corrected financial statements to DHCD.

Auditee's Response

The Authority's Executive Director responded, in part:

When I was made aware that my time sheets should be signed and approved by a board member I immediately began that. I added a line on my time sheets for Board member signature. An employee leave record has been set up on my computer that will be easy to use and maintain. This will prevent any future discrepancies regarding sick time, vacation time, personal leave and comp time. This will provide accuracy in accordance with our Personnel Policy or contract.

b. Excess Vacancy Delays

Our prior audit disclosed that the Authority did not fill vacant units within the timeframe required by DHCD. Specifically, DHCD requires local housing authorities (LHAs) to have vacated units readied for occupancy within 21 business days. However, we found that the Authority had nine units that remained unoccupied for a total of 485 business days beyond the 21-day limit. Consequently, the Authority may have lost the opportunity to earn \$4,875 in potential rental income during the period October 1, 2004 to February 28, 2006.

Our follow-up review noted that the Authority had 206 vacancy delays, which may have resulted in the Authority's losing the opportunity to earn approximately \$2,200 in potential rental revenue. The Executive Director indicated that there were three main reasons for the delays: units needed either extensive cleaning or repairs, prospective tenants refused unit offers, and work hours for the Authority's sole maintenance worker were insufficient.

By complying with DHCD's 21-day unit turnaround requirement, the Authority will improve its financial condition and better serve the elderly and family applicants on its waiting lists for state-subsidized housing.

Recommendation

As the collection of tenant rents is the primary revenue source for the Authority, it should make every effort to ready its units for reoccupancy in accordance with DHCD guidelines. Moreover, the Authority should prioritize rehabilitating and reoccupying its vacant units and document the reasons for delays in filling vacant units, and regularly monitor the unit turnaround process to ensure compliance with DHCD guidelines. Also, if necessary, the Authority should apply for additional funding from DHCD to hire additional maintenance staff to assist in preparing vacant units for reoccupancy in a timely manner; encourage applications by advertising in area newspapers and contacting local social service agencies; and consider having outside contractors, if necessary and economically feasible, prepare vacant apartments for reoccupancy.

Auditee's Response

The Authority's Executive Director responded, in part:

Turn around time filling vacant units may have occurred for several reasons. During this audit period maintenance hours were cut from 40 to 30 hours a week. If it is winter and snow removal needs to be done then snow removal will come before an apartment turnaround. If my one maintenance man is out on sick or personal leave than I do not have another maintenance person to fill in. Many times units were in such bad condition that floors needed to be redone. Total bathroom renovations, extensive cleaning and ordering of new appliances occurred. This all takes time to do and don't forget that while maintenance is turning over an apartment my one maintenance man still has to respond to emergencies, work orders, lawn care, snow removal etc. As far as applying for additional funding from DHCD to hire additional staff to assist in preparing vacant units, I have had my maintenance mans hours cut because of budgetary constraints. Housing Authority's are anticipating additional hours being cut from staff in this next fiscal year. My part time assistant was already cut from 10 hours to 8 hours per week. The 2010 budget is 1.2 million LESS than this year. As Mass NAHRO has indicated this will cause future reductions in staff, longer unit turn around times and continued deterioration of units. Every effort is made to occupy these units as quickly as possible.

2. INSPECTIONS NOT CONDUCTED

Our audit noted that, contrary to DHCD regulations, the Authority did not (a) conduct required annual unit inspections in 2008 and (b) verify its fixed assets through inventory inspections as required, as discussed below.

a. Unit Inspections Not Performed in 2008

Our review of Authority tenant files determined that housing units were not inspected in 2008 and that the last inspections occurred in December 2007. DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspections of local housing authority (LHA) 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. The Executive Director stated that, due to time constraints caused by other issues impacting her schedule, she was unable to perform the inspections. The Executive Director further stated that unit inspections would be conducted within the next few months and that, henceforth, she would perform annual inspections each December.

Auditee's Response

The Authority's Executive Director responded, in part:

Due to the fact that maintenance is now doing our own snow removal the apartment inspections that are normally done in December were held until spring of the next year when snow issues slowed down. Apartment inspections have been done and are being done at this time and will be done again end of 2009.

b. Inventory Inspections Not Performed

DHCD's Accounting Manual requires each LHA to annually verify its fixed assets and to affix property tags to assets on its capital and control inventory items as well as on all LHA-owned refrigerators and stoves. However, our audit noted that the Authority did not have records indicating that it complied with DHCD's annual inventory requirement, and the Executive Director confirmed that none had been taken. We also noted that inventory tags affixed to the Authority-owned refrigerators and stoves were not readily visible. Finally, our audit noted that although the Authority did have an inventory control policy in place, its provisions were not being followed. Specifically, the Authority did not maintain inventory records for either a capitalization inventory (items valued at \$5,000 or more) or a control inventory (items valued at \$1,000 or more). Rather, the Authority provided us with a fixed asset list that did not specify asset location and did not include the valuation of most assets. The assets that were valued totaled approximately \$40,000. As a result of its noncompliance with Authority or DHCD inventory policies, the Authority cannot assure the Commonwealth of the security and total value of its assets.

Recommendation

The Authority should address the shortcomings of its inventory system. A full inventory of all equipment valued at \$1,000 or more should first be compiled and documented. Further, a capitalization inventory of items valued at \$5,000 or more should be conducted and compiled. Finally, the Authority should ensure that tag numbers of Authority-owned property, including refrigerators and stoves, are readily visible for inspection.

Auditee's Response

The Authority's Executive Director responded, in part:

An inventory report is in place and property tags have been affixed to inventory items. Inventory tags were not placed on refrigerators and stoves in a visible area because due to the placement of the stoves and refrigerators in each unit the only place to put tags so you could see it without pulling appliances out is on the front of appliances. Not a good place. During apartment inspections new inventory tags have been placed on stoves and refrigerators on lower corners where it can easily be seen. The Authorities inventory is being revised and updated.

3. QUESTIONABLE MODERNIZATION PAYMENTS

Our audit found that the Executive Director and the Authority's maintenance worker were compensated a total of \$2,824.70 for work performed on the Authority's modernization project. However, neither individual provided adequate documentation to support their having worked extra hours on the project beyond their regularly scheduled hours. The Secretary of DHCD issued a memorandum dated April 10, 1987 that details the funding and use of administrative fees for modernization and development projects. It states, in part, that modernization administrative funds may be used for "increasing work hours of existing part-time staff" and that "It must be pointed out clearly that these Modernization administrative funds **may not** be used to increase an executive director's salary."

On August 29, 2007, the Executive Director submitted a memorandum to DHCD stating she had worked 47 additional hours at \$30.13 per hour (\$1,416.11) and that the maintenance worker had worked 81 additional hours at \$17.39 per hour (\$1,408.59). On September 28, 2007, DHCD approved the payment of \$2,824.70. However, since the Authority could not produce any documentation to support either employee having worked additional hours above and beyond their regularly scheduled hours, we do not believe this payment should have been approved by DHCD. Our analysis of the maintenance worker's timesheets revealed a total of 81 hours were

worked during the two-week period reflected on the timesheets. However, these hours represented his regularly scheduled hours for which he had already been paid. As a result, it appears that the maintenance worker was compensated twice for the same work hours.

Recommendation

The Executive Director and maintenance worker should provide documentation to DHCD to support their additional hours worked on the Authority's modernization project over and above their regular hours. DHCD, in turn, should not approve similar payments in the future without adequate supporting documentation (i.e., timesheets) from the Authority.

Auditee's Response

The Authority's Executive Director responded, in part:

According to a memo from DHCD on April 10, 1987 each authority is allotted a percentage for administrative fees for modernization and development projects. LHA's may request up to two-year development support at amounts not to exceed the guidelines. It states that DHCD will consider requests to increase the number of executive director work hours during the course of a modernization project. Finally this letter states that DHCD will make available bonus money for Executive Director's or their designees (maintenance) to acknowledge significant accomplishments within a mutually agreed time frame. Bonuses may be awarded to the staff person (or persons) who are responsible for accomplishing these milestones within bonus limits set by DHCD.

Documentation showing the administration fee for 81 hours worked by maintenance was recently provided by the Authority. These extra hours worked are for the boiler project and part of this time maintenance was only working 30 hours per week. Proper request was made by me to DHCD requesting the administration fee. DHCD authorized this request. DHCD never indicated to myself that a breakdown of hours or work done be submitted on any employee although in the future this will be done even if DHCD does not require it. DHCD informed me that no breakdown of hours is needed. The Executive Director's salary was never increased.

Auditor's Reply

We acknowledge that DHCD's 1987 guidelines do not require LHAs to document extra hours worked by staff on modernization projects; however, we believe that documentation in the form of timesheets is essential to support reimbursement requests for additional hours worked. Accordingly, DHCD should update its 1987 guidelines by developing specific criteria to assist LHAs in documenting requests for administrative expenses under modernization projects. We are pleased that, in the future, the Executive Director intends to document the hours or work done by any employee and submit such information to DHCD.

The Executive Director's response makes reference to bonus money being available under DHCD's April 10, 1987 guidelines to acknowledge significant accomplishments within a mutually agreed upon time frame. It should be noted that such bonus money pertains only to those authorities approved to undertake development activities. Bonus money does not pertain to modernization projects, which is the subject of this Audit Result.