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INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
WELLESLEY HOUSING AUTHORITY  
JANUARY 1, 2002 TO APRIL 30, 2003

OFFICIAL AUDIT  
REPORT  
JANUARY 5, 2004

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain activities of the Wellesley Housing Authority for the period January 1, 2002 to April 30, 2003. 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 assess compliance with laws, rules, and regulations applicable to each program.

Based on our review, we have concluded that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in inappropriate expenditures, uneconomical practices, and mismanagement in its housing programs.

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Our review of the Authority revealed deficiencies in its general administrative procedures. Those deficiencies included (a) extremely high tenant accounts receivable for all housing programs; (b) shortcomings in payroll, including timesheets unsigned by employees or their supervisor, timesheets not in agreement with payroll records, and overtime pay despite the lack of a policy allowing such pay; (c) lack of documentation regarding whether various vendors were issued IRS 1099 forms; (d) a voided travel-related check listed as outstanding on the bank reconciliations; (e) deficiencies in the tenant selection process, including insufficient documentation and questionable prioritization of tenants; and (f) shortcomings in rent determination, including lack of documentation regarding tenant income or deductions, failure to conduct determinations, and the absence of lease addendums or Notice of Rent Change forms from tenant files.

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There was no evidence that a physical inventory had taken place during the audit period (January 1, 2002 to April 30, 2003). Also, the inventory listing was not complete, and accounting entries were not completed. Inventory purchases were charged to the wrong programs and wrong accounts, and inventory purchases were not tagged as required by the Department of Housing and Community Development.

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While performing a rent determination in December 2002, the administrative assistant discovered that a tenant was receiving an \$850 Social Security payment per month. The tenant had been eligible for Social Security since June 2001; however, the tenant had not informed the Authority of the income increase, which is a violation defined by 760 CMR 6.06 (6) (g), Provisions on Reasons for Termination of a Lease. No Authority records were available to explain why the Authority took no action regarding the unreported income.

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The Authority's administrative assistant, who was also an applicant for Authority housing, supplied only one page of her divorce decree (concerning child support for her two sons). Other pages of the decree included information about health insurance payments and funds (\$22,500) to be paid to her from the sale of her home. This failure to provide complete and accurate information was in violation of 760 CMR 6.06 (6) (h), calling into question this applicant's eligibility for Authority housing.

## 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 Wellesley Housing Authority for the period January 1, 2002 to April 30, 2003. 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 assess 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's 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 tenants' uncollectible accounts receivable balances were written off properly
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and determine whether 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
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and determine whether rental charges by landlords were consistent 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
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts

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- 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

On January 27, 2003, prior to the commencement of our audit engagement, the Authority's Executive Director retired. Additionally, the two administrative staff personnel were placed on paid administrative leave. We, therefore, were unable to speak with Authority personnel responsible for the events and records prepared during our audit period. The Acting Executive Director and current administrative staff provided authority records.

Based on our review, we concluded that for the 16-month period ended April 30, 2003 the Authority did not maintain adequate controls and did not comply with applicable laws, rules, and regulations for certain areas tested. Specifically, certain Authority documentation could not be located and financial transactions and certain account balances could not be explained or confirmed. Generally accepted government auditing standards require officials and employees who manage public programs to render an account of their activities so that the public can be assured that government funds are handled properly and in compliance with applicable laws, rules, and regulations.

We discussed our audit results with the Authority's Acting Executive Director and DHCD officials. DHCD performed its own review of the Authority's administrative activities and with the assistance of the Acting Executive Director is addressing the administrative procedural deficiencies noted in our report, establishing inventory controls, and taking steps to ensure that if employees seek tenancy at the Authority they comply with DHCD reporting requirements. The Authority should comply with recommendations as outlined in DHCD's audit dated September 2003 and DHCD's policies and rectify the various shortcomings and deficiencies identified in our review.

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## AUDIT RESULTS

### 1. SHORTCOMINGS IN GENERAL ADMINISTRATIVE PROCEDURES

Our review of the Wellesley Housing Authority revealed deficiencies in the Authority's general administrative procedures, as follows:

- **Excessive tenant accounts receivable balances.** Our review of tenant accounts receivable revealed the following delinquent accounts:

Program	Number of Delinquent Accounts	Delinquent Amounts	Percentage of Average Monthly Rent Roll
200-1	89	\$84,551	94.17%
667-1	11	1,884	12.83%
667-2	9	2,380	21.13%
667-3	30	9,948	33.01%
705-1	22	21,932	92.71%

As of April 30, 2003, the Acting Executive Director was taking steps to verify these amounts, identifying those accounts that are collectible and making arrangements to collect those accounts.

- **Payroll.** Our test of the Authority's payroll expenditures for the period January 1, 2002 to February 28, 2002 noted several deficiencies:
  1. Timesheets were not signed by the employee or the supervisor.
  2. Timesheets did not always agree with payroll records.
  3. Two administrative employees (the Executive Director and the Program Coordinator) received overtime pay for maintenance work (\$3,479 and \$2,520, respectively), even though no current approved policies allow for such payments.
  4. The Executive Director received compensation for 59.5 vacation days, even though his contract clearly states that he may accrue no more than 25 vacation days.
- **1099-Miscellaneous forms.** It was not possible to determine whether the required Internal Revenue Service (IRS) Form 1099-Miscellaneous was sent to all vendors that had received more than \$600 in payments for 2002. Four of the six vendor files that we reviewed did not contain 1099-related documentation.

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- **Travel.** As of April 30, 2003, a voided check for \$178, written in January 2001 to the Crown Plaza Hotel, was listed as outstanding on the bank reconciliation.
  - **Tenant selection.** Our review of tenant-selection procedures revealed the following deficiencies:
    1. Two tenants, one of whom was an Authority administrative assistant and the other her cousin, were assigned questionable emergency priorities allowing them to be housed before other qualified applicants.
    2. A tenant in 667-C was housed in fiscal year 2001, received a 14-day notice to quit for nonpayment of rent, vacated the apartment without notifying the Authority, and was subsequently re-housed in January 2003.
    3. Six of the 44 files we reviewed did not have sufficient documentation for deductions, housing status, or landlord references.
    4. Two applicants (the administrative assistant and her cousin) were given minority status even though the Authority had met its minority goal in 1999 and could not house applicants based solely on their minority status.
  - **Rent determinations.** Our review of 21 files revealed the following deficiencies in rent determination:
    1. Nine of the files had either no supporting documentation or insufficient documentation to support reported income or deductions.
    2. In five instances, rent determinations were not completed annually as DHCD requires.
    3. The Program Coordinator, who is also a tenant, signed off on his own lease as the Authority's Program Coordinator and did not redetermine his rent on four instances as required by DHCD. (Annual reviews on November 1, 2001 and November 1, 2002 and two reviews mandated after pay raises in January 2002 and January 2003).
    4. Fifteen files did not have signed lease addendums or Notice of Rent Change forms on file.

The above issues were all caused by a lack of supervisory oversight. We reviewed all of these issues with the Acting Executive Director of the Authority and DHCD officials. They stated that they were aware of the deficiencies and would take action to satisfactorily address them.

***Recommendation***

The Authority should practice more supervisory oversight in all its administrative matters.

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***Auditee's Response***

The Needham Housing Authority is providing ongoing management of the Wellesley Housing Authority and has adequate management controls to avoid similar problems.

**2. INADEQUATE CONTROLS OVER INVENTORY**

Our review of the Authority's inventory controls revealed the following deficiencies:

- \$4,205 was recorded in account number 7520 (New Inventory Purchases—Operating Statement) but was not recorded in account number 1400.4 (Inventory—Balance Sheet).
- A Hewlett-Packard LaserJet printer and a Sony digital camera (total cost, \$1,125) were charged to account number 4190 (Administrative—Other). They should have been charged to account numbers 7520 (New Inventory Purchases—Operating Statement) and 1400.4 (Inventory—Balance Sheet).
- A Hewlett-Packard LaserJet 1220SE printer/copier/scanner (cost, \$530) could not be located.
- A Gravely snow blower (bought used at a cost of \$350) could not be located. When questioned about the location of the snow blower, one of the maintenance crew stated that it had been discarded. This snow blower had not been added to or deleted from the inventory.
- Four General Electric gas ranges and six General Electric refrigerators (purchased on December 5, 2002, for a total cost of \$3,630) were charged to account number 211.1 (Accounts Payable—State Modernization). These electrical appliances should have been charged to account number 4001 (State Consolidated Program).
- In October 2002, the Authority sold a 1992 Ford truck for \$1,000. The Kelley Blue Book value of this truck was between \$3,535 and \$4,435, depending on its condition—a potential loss of \$2,535 to \$3,435. Also, this truck had not been deleted from the inventory. The Authority's records did not indicate why the truck was sold, whether bids were sought, or how the sale price was determined.
- A Gravely 250Z rider mower purchased for \$5,839 in May 2002 was not paid for until July 2002, resulting in a late fee of \$88. In addition, only two quotes were solicited instead of the three required by state bidding laws.
- There was no evidence that the Authority performed an annual physical inventory during the audit period.

These deficiencies are in violation of regulations set forth in DHCD's Accounting Manual for State Aided Housing Programs, Section 15, page 5, part D, Inventory of Equipment, which requires Authorities to account for all inventory additions and deletions as well as to update the physical inventory listing on an annual basis. Physical inventory results must be compared with



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equipment record files and any differences and discrepancies reviewed by the LHA for possible adjustments. As a result of this deficiency, Authority's inventory figures could not be reconciled to the general ledger to determine whether they were accurate. The above-noted deficiencies were caused by a lack of supervisory oversight.

***Recommendation***

The Authority should conform to DHCD's inventory regulations as outlined in DHCD's accounting manual (Section 15 Part 5 Part D). The Authority should perform a physical inventory and update the physical inventory listing. These results should be compared to the general ledger and any necessary adjustments should be made.

***Auditee's Response***

The Needham Housing Authority is keeping records of new purchases to be used to create an inventory list and will conduct a comprehensive inventory once the most serious management issues have been successfully addressed.

**3. MISUSE OF CRIMINAL OFFENDER RECORD INFORMATION REQUESTS**

During our review of tenant files, we found that in January 2003 the Authority's administrative assistant requested a criminal offender record information (CORI) check on five individuals, in violation of Chapter 6, Section 168, of the Massachusetts General Laws. A CORI is a record of criminal offenses of which a person has been convicted since age 18. The 760 Code of Massachusetts Regulations (CMR) 5.12 (Verification Procedures) requires as part of the tenant selection process that housing Authorities obtain CORI information when an applicant is at or near the top of the waiting list.

Our review disclosed that on October 23, 2002 the administrative assistant and Executive Director of the Authority had signed the CORI form titled Individual Agreement of Non-disclosure and Authorization, which states:

*I understand that any person who willfully requests, obtains or seeks to obtain criminal offender record information (CORI) under false pretenses, or who willfully communicates or seeks to communicate CORI to any agency or person except in accordance with the provisions of M.G.L.c. 6, §§ 168 through 175, inclusive, shall for each offense be fined up to five thousand dollars (\$5,000), or imprisoned in a jail or house of correction for up to one year, or both....*

This form also clearly states that CORI checks are for the tenant selection process only.

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The Authority's employees abused their position of trust by requesting a CORI check on the following five individuals shortly after a critical article appeared in the local newspaper:

- Two applicants for state housing were at or near the top of the waiting list for a three-bedroom unit. A CORI check had correctly been performed, and the individuals were told to call the office daily as they were very close to getting housed; the next day, when the individuals checked with the Authority, they were told that there were no more three-bedroom units available (see Audit Result No. 4). These individuals were then quoted in the local newspaper (*Wellesley Townsman*) as criticizing the Authority for its housing practices. A second CORI check was then initiated, contrary to provisions of the General Laws.
- The third individual had been a tenant of the Authority since 1983 and was not being selected as a tenant. Accordingly, the Authority had no basis for obtaining a CORI check.
- The fourth and fifth individuals were housing applicants and relatives of an associate of the current tenant noted above (the third individual). Their position on the Authority's waiting list at the time did not warrant a CORI check.

***Recommendation***

The Authority should file a complaint with the Criminal History Systems Board (CHSB) so that the CHSB may perform its own investigation and respond to this matter.

***Auditee's Response***

We understand that the Department of Housing and Community Development has filed a complaint with the Criminal History System Board and we will verify that fact.

**4. IMPROPER ADMISSION OF HOUSING EMPLOYEES AS TENANTS**

Two employees of the Authority, the administrative assistant and Program Coordinator, were admitted as tenants without notifying DHCD of their pending admission as required by 760 CMR 4.04 (2) (g):

*Whenever any LHA board member, any administrative or supervisory employee or any member of the immediate family of such a board member or employee seeks admission as a tenant or seeks admission as a participant in a program administered by the LHA or seeks a transfer to a different unit, all necessary information shall be forwarded to the Department [DHCD], which shall make the decision on the requested admission or transfer in accordance with applicable procedures.*

According to an article in the local paper (*Wellesley Townsman*), the former Executive Director said he was not aware of this regulation.

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***Recommendation***

All necessary information should be forwarded to DHCD so that DHCD may make their decision as to whether these two tenants should remain as tenants of the Authority.

***Auditee's Response***

The files on both staff members have been reviewed by DHCD and forwarded to legal counsel. Both have been terminated from employment and it has been determined that the Wellesley Housing Authority will seek to evict both households.

**5. NO ACTION DOCUMENTED REGARDING UNREPORTED TENANT INCOME**

While performing a rent redetermination for a tenant in the Elderly Housing Program, (December 2002), the Authority's administrative assistant discovered that the tenant had been receiving \$850 per month in Social Security income that had not been previously reported. The tenant had been eligible for this income since June 2001. The Authority nevertheless redetermined the tenant's income using income figures from 1999.

The tenant's failure to supply complete and accurate information necessary for an annual rent redetermination was a violation of 760 CMR 6.06 (6) (g), Provisions on Reasons for Termination of a Lease. As a result, the tenant's rent was underpaid possibly starting as far back as June 2001. The records available for our review did not detail why the Authority did not attempt to recover the amounts of adjusted rent due or terminate the lease, or why the tenant failed to report the additional income when it was first received.

***Recommendation***

The Authority should redetermine the tenant's rent using complete information regarding the tenant's income and determine if the information was intentionally withheld.

***Auditee's Response***

The tenant has been evicted for lease violations, including failure to report income.

**6. NO ACTION TAKEN REGARDING APPLICANT'S FAILURE TO SUPPLY COMPLETE AND ACCURATE INFORMATION**

An applicant for state-aided housing, who was also the Authority's administrative assistant, supplied only one page from her divorce decree—the page concerning child support for her two sons. Missing pages included information about payments received for health insurance and her

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share of funds from the sale of her home (\$22,500), which if reported may have affected her housing eligibility or rent amount. This failure to provide complete and accurate information was in violation of 760 CMR 6.06 (6) (h), which sets forth the following as a reason for lease termination:

*Failure to supply complete and accurate information in tenant's application for public housing or in tenant's request for a priority status or for a preference...if tenant knew or should have known the information to be incomplete or inaccurate, and if complete and accurate information would have provided: (i) cause for finding applicant ineligible or unqualified for public housing; (ii) cause for determining tenant not entitled to such priority status, preference....*

Consequently, this applicant's eligibility for Authority housing comes into question.

***Recommendation***

The applicant's eligibility documentation should be reviewed once it has been determined that the information is complete.

***Auditee's Response***

This issue has been forwarded to legal counsel for review and eviction.