



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

Making government work better

Official Audit Report – Issued September 24, 2014

Lexington Housing Authority

For the period July 1, 2011 through December 31, 2013





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Leo P. McSweeney, Chair
Lexington Housing Authority
One Countryside Village
Lexington, MA 02420

Dear Chairman McSweeney:

I am pleased to provide this performance audit of the Lexington Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2011 through December 31, 2013. My audit staff discussed the contents of this report with management of the Authority.

I would also like to express my appreciation to the Lexington Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

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 Lexington Housing Authority for the period July 1, 2011 through December 31, 2013.

The objective of our audit was to determine whether (1) the Authority's expenditures were allowable and related to Authority operations; (2) the Authority had adequate controls over revenue; (3) the Authority determined tenant eligibility, placement, and monthly rental charges in accordance with Department of Housing and Community Development (DHCD) regulations; (4) the Authority procured goods and services in accordance with Chapter 30B of the General Laws; (5) site inspections were adequate to ensure that housing units met safety and sanitation requirements; (6) controls were in place and operating effectively to safeguard Authority assets; (7) the Authority allocated shared costs under a plan that reflected an equitable distribution between state and federal programs; (8) the Authority complied with DHCD's financial reporting and data collection requirements; (9) modernization money, if any was awarded, was spent in accordance with DHCD regulations; and (10) money received under Chapter 44B of the General Laws (the Community Preservation Act), if any, had been spent according to that law and DHCD guidelines.

Summary of Results

The Authority over-accrued the amount it owed to the Town of Lexington for Payment in Lieu of Taxes (PILOT). Because the Authority over-accrued the PILOT expenses each year, its financial records and statements are inaccurate, showing a balance due for PILOT payments that exceeds the actual amount owed. These funds could have been budgeted and spent in other areas of the Authority's operations.

Recommendations

The Authority should adjust its monthly accrual rates for PILOT expenses so that they more closely approximate its actual anticipated costs. Annually, the Authority should adjust the accrual accounts to accurately reflect the amounts of PILOT payments actually owed to the Town of Lexington.

OVERVIEW OF AUDITED AGENCY

Background

The Lexington Housing Authority is authorized by, and operates under, Chapter 121B, Section 3, of the Massachusetts General Laws and Department of Housing and Community Development (DHCD) regulations (Title 760 of the Code of Massachusetts Regulations). DHCD is the agency that has oversight of the Massachusetts housing and community-development programs and of state-funded housing.

The Authority's administrative offices are located at One Countryside Village in Lexington, Massachusetts. The Authority currently manages and oversees 148 units of state housing for elderly tenants, 16 units of state housing for special-needs tenants, 1 unit of state scattered housing for low-income families, 4 units under the Massachusetts Rental Voucher Program, and 154 units of federal housing.

A five-member board of commissioners, selected from local residents, is responsible for governance of the Authority. Four of the board members are elected by the town. One board member is appointed by the governor of Massachusetts. The board has hired an executive director to manage the Authority's day-to-day operations.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Lexington Housing Authority for the period July 1, 2011 through December 31, 2013.

The objective of our audit was to determine whether (1) the Authority's expenditures were allowable and related to Authority operations; (2) the Authority had adequate controls over revenue; (3) the Authority determined tenant eligibility, placement, and monthly rental charges in accordance with Department of Housing and Community Development (DHCD) regulations; (4) the Authority procured goods and services in accordance with Chapter 30B of the General Laws; (5) site inspections were adequate to ensure that housing units met safety and sanitation requirements; (6) controls were in place and operating effectively to safeguard Authority assets; (7) the Authority allocated shared costs under a plan that reflected an equitable distribution between state and federal programs; (8) the Authority complied with DHCD's financial reporting and data collection requirements; (9) modernization money, if any was awarded, was spent in accordance with DHCD regulations; and (10) money received under Chapter 44B of the General Laws (the Community Preservation Act), if any, had been spent according to that law and DHCD guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our audit objectives, we gained an understanding of, and tested, the relevant internal controls for financial operations, tenant selection and annual rent determinations, site inspections, DHCD financial reporting and data collection requirements, property and equipment, cost allocation, and modernization.

Further, we conducted audit testing in the following areas:

- We selected the last 10 tenants housed to verify that tenants were selected in accordance with DHCD regulations.

- We examined vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- We tested rent determinations for 25 of 153 tenants to verify that rents were calculated properly and in accordance with DHCD guidelines.
- We reviewed year-end tenant accounts-receivable balances to determine their collectability.
- We reviewed site-inspection records to verify compliance with DHCD inspection requirements and inspected 20 of 148 elderly housing units to determine whether they were safe and sanitary.
- We reviewed 50 of 1,854 general expenditures during our audit period to determine whether they were allowable, reasonable, and related to Authority operations. We also determined whether these expenditures were properly allocated between state and federal programs.
- We reviewed Authority cash controls and verified that its deposits were fully insured.
- We tested DHCD grants and payments related to 5 of 37 Authority modernization projects.
- We tested procedures for property and equipment and determined the adequacy of the Authority's controls to protect, and account for, its assets in accordance with DHCD regulations.
- We examined contract-procurement records to verify compliance with applicable laws and DHCD requirements for awarding contracts.
- We reviewed the Authority's financial reporting and data submissions for compliance with DHCD requirements.
- We determined whether the Authority had been awarded Community Preservation Act funds and, if so, whether it had expended those funds in accordance with applicable statutes and DHCD requirements.

In addition, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. Specifically, we performed procedures such as interviewing Authority employees and reviewing relevant documents, statutes, and regulations as well as Authority policies, procedures, and accounting records.

We obtained revenue, subsidy, grant-award, and expenditure information generated from information systems maintained by the Commonwealth and by the Authority. Because the Authority is small and makes limited use of information systems, and our testing largely relied on hardcopy source documents, we performed alternative tests to ensure that data provided by the Authority's information systems were reliable. We tested expenditure and rent-payment entries in the

Authority's and the fee accountant's systems by reconciling these expenses and revenues in both systems to original documents (checks and bank statements). We also interviewed the executive director about the Authority's information-system practices. We found that the entries tested in the Authority's system and the fee accountant's ledger accurately corresponded with the hardcopy source documentation we reviewed. Based on this review, we determined that the data we reviewed were sufficiently reliable for the purposes of this report. Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population.

Based on our audit, we have determined that for the period July 1, 2011 through December 31, 2013, except for the issue addressed in the Detailed Audit Results and Findings section of this report, the Authority established adequate internal controls and complied with applicable laws, regulations, policies, and procedures in the areas tested. We also found that expenditures tested were allowable and related to the Authority's operations, that the Authority was performing site inspections that adequately ensured that housing units met safety and sanitation requirements, and that the Authority was equitably allocating shared costs between its state and federal programs.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

Audit Finding

The Lexington Housing Authority over-accrued its Payment in Lieu of Taxes expense for its conventional and special-needs housing programs.

Annually, the Authority pays the Town of Lexington a Payment in Lieu of Taxes (PILOT)¹ for its conventional family housing and special-needs housing. The Authority estimates the PILOT expense and accrues it each month; it makes the actual payment to the Town of Lexington once a year.

Chapter 121B, Section 16, of the Massachusetts General Laws exempts local housing authorities from paying property taxes, except for conventional housing units (family units) and properties for the special-needs housing program, for which the Authority may make PILOT payments. The Authority uses the Department of Housing and Community Development's (DHCD's) approved formula (\$100 plus one-half the full residential tax rate, multiplied by the number of bedrooms) to compute the PILOT payments for these programs.

During fiscal years 2012 and 2013, the Authority over-accrued the amount it owed for PILOT expenses in its accounting records. As of June 30, 2013, the Authority had over-accrued PILOT expenses in the conventional-housing program account by \$399 and in the special-needs program account by \$3,391. Because the Authority over-accrued the PILOT expenses each year, its financial records and statements are inaccurate, showing a balance due for PILOT payments that exceeds the actual amount owed. These funds could have been budgeted and spent in other areas of the Authority's operations.

Authoritative Guidance

Section 15 of the DHCD Accounting Manual for State-Aided Housing Programs recognizes that "the objective of accrual accounting is to recognize, as they occur, all substantial amounts receivable or payable." Accrual accounting is for "expenses that accumulate, or accrue to some extent automatically with the passage of time."

¹ The PILOT program enables tax-exempt entities to submit a payment for municipal services that are normally funded by taxes.

The accurate accrual of receivable and payable items such as PILOT not only is a standard financial reporting requirement but also facilitates proper budgeting and allows for more effective oversight by the Authority's board.

Reason for Over-Accrual of PILOT Expense

The Authority established an accrual rate that greatly exceeded the PILOT payments and thereby accrued more expense than necessary each year to cover the PILOT payment to the Town of Lexington. During the budget process, the Authority established an estimated PILOT payment that exceeded the actual amount owed. At the end of the fiscal year, the Authority did not adjust the remaining balance in the account to reflect the actual amounts owed to the Town of Lexington.

Recommendations

The Authority should adjust its monthly accrual rates for PILOT expenses so that they more closely approximate its actual anticipated costs. Annually, the Authority should adjust the accrual accounts to accurately reflect the amounts of PILOT payments actually owed to the Town of Lexington.

Auditee's Response

[The Lexington Housing Authority] has implemented the recommendation and has adjusted the monthly accrual rates for the PILOT expenses so as to be more closely approximate to the actual anticipated costs.