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INDEPENDENT STATE AUDITOR'S REPORT

ON CERTAIN ACTIVITIES OF THE

DENNIS HOUSING AUTHORITY

JULY 1, 2001 TO DECEMBER 31, 2002

OFFICIAL AUDIT  
REPORT  
JUNE 30, 2003

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## TABLE OF CONTENTS/EXECUTIVE SUMMARY

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### INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Dennis Housing Authority for the period July 1, 2001 to December 31, 2002. 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 assess compliance with laws, rules, and regulations applicable to each program.

The Authority manages 152 units of state-subsidized housing and 150 state and federally funded housing certificates. The Authority also owns and operates 13 units of housing located at Melpet Farms. The Town of Dennis donated a portion of its Melpet Farms property to the Authority, which obtained a \$400,000 construction loan in order to rehabilitate these units. In addition, the Authority oversees the Dennis Development Corporation (DDC), a nonprofit subsidiary that operates a senior center and provides day services for the elderly. The senior center is also located on land donated by the Town of Dennis.

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 the mismanagement of its housing project.

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### AUDIT RESULTS

4

#### 1. DECLINE IN FINANCIAL POSITION

4

Our audit indicated that the Authority has experienced a steady decline in its financial position. For example, the Authority's operating reserve has dwindled from \$157,000 as of June 30, 2001 to \$26,232 as of December 31, 2002, whereas the minimum required reserve amount for an Authority of its size is \$96,621. Moreover, the Authority's Revolving Fund has been improperly used to fund rehabilitation projects, and the Authority is owed significant amounts from its programs. We also found that the Authority's 400-1 program balance sheet reflects a liability in an account entitled "DHCD Subsidy Overpayment" totaling \$178,536, which equals cumulative overpayments of the Authority's annual subsidy. In a letter dated January 14, 2003, DHCD instructed the Authority to pay \$178,536 to the Commonwealth. However, to date the Authority has not yet done so. In addition, the Authority has borrowed funds to perform a rehabilitation project at Melpet Farms that has been mismanaged, is significantly incomplete, and may lack sufficient funding for completion (see Audit Result No. 3). As of January 31, 2003 six of the project's 13 units were uninhabitable, and two of those six units had been gutted, with only shells of the units remaining.

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**2. INADEQUATE CONTROLS OVER PAYROLL EXPENDITURES** **5**


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Our review of the Authority's payroll expenditures noted several deficiencies. Specifically, (a) payroll checks had been altered, (b) the former Executive Director received \$6,250 in what appears to be excessive and apparently improper compensation, and (c) unearned sick and vacation time had been awarded. The Authority's June 30, 2002 bank reconciliation revealed that 10 Authority payroll checks had been altered by having their dates whited out and replaced with new dates. An analysis of the checks cashed during June 2002 revealed that all of the altered checks were payroll checks for the former Executive Director and a maintenance man. A comparison of the employees' timesheets, the payroll register, and the cancelled checks indicated that the checks cashed in June 2002 were actually checks prepared for the month of July 2002. Our expanded testing revealed that during our audit period these two individuals had cashed 117 altered payroll checks having a value of \$63,881. Moreover, we found that the former Executive Director claimed and received compensation totaling \$6,250 in addition to her regular salary of \$59,000 for performing functions that seem to fall within her regular Executive Director duties. Our review also disclosed that the former Executive Director had improperly awarded sick and vacation time totaling \$13,173 to several Authority employees in contravention of the Authority's personnel policy that states "Employees leaving before six months of employment are not entitled to earn annual leave."

**3. MISMANAGEMENT OF MELPET FARMS REHABILITATION PROJECT** **10**


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Our audit indicated that the Authority did not adequately administer its rehabilitation project for its Melpet Farms property, six acres of land deeded by the Town of Dennis on which the Authority is required by restrictive covenant to develop affordable housing. Specifically, we found the following deficiencies (a) inadequate project planning, (b) questionable use of construction loan funds, (c) vacant and uninhabitable units, and (d) inadequate controls over project operating revenues and expenses. On March 4, 2002, the Authority obtained a \$400,000 construction loan that will convert into a five-year note after 18 months to rehabilitate the property's 13 existing units. As of January 31, 2003, after the Authority had expended \$370,359 of this amount, only seven of the 13 units were occupied and habitable.

**4. NONCOMPETITIVELY AWARDED CONTRACTS** **15**


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Our review revealed that the Authority did not follow statutory requirements for the procurement of building repair and construction services and equipment and supplies. Specifically, the Authority did not adhere to Chapter 149, Section 44A, of the General Laws, which requires every contract by a public agency for building construction, reconstruction, installation, demolition, maintenance, or repair costing more than \$25,000 be put out to bid, and Chapter 30B of the General Laws (the Uniform Procurement Act), which requires public entities to seek verbal or written quotes for the procurement of supplies or equipment totaling between \$5,000 and

\$25,000. In addition, contrary to Chapter 30B, the Authority did not designate a procurement officer, create procurement files, and retain procurement records for at least six years from the date of final payment of each contract. During our audit period the Authority improperly entered into \$409,324 in noncompetitively awarded contracts for goods and services.

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**5. QUESTIONABLE BOARD EXPENDITURES TOTALING \$7,808** **20**

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During our audit period the Authority's board and former Executive Director attended numerous conferences and seminars that required the Authority to pay for room, board, and mileage. These expenses, which totaled \$7,808 for overnight trips to The Balsam's in New Hampshire; Martha's Vineyard; The Hyatt Regency in Newport, Rhode Island; and The Woodstock Inn and Resort, were questionable given the Authority's poor financial condition and that they did not appear to be related to the programs to which they were charged.

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**SUBSEQUENT EVENTS** **22**

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On March 11, 2003 the Authority's board voted to cancel its search for a new Executive Director and to enter into a partnership with the Barnstable Housing Authority (BHA) in order to utilize the BHA management team's strengths and its extensive knowledge of public housing to stabilize the Authority's perilous financial position. The scope of BHA's duties and financial reimbursements are being negotiated.

We determined that through March 31, 2003, the Authority's nonprofit subsidiary, DDC, has not filed the required Federal Income Tax Return Form 990 or the required Form PC with the Public Charities Division within the Massachusetts Attorney General's Office for the two fiscal years ended June 30 2002. This could result in fines and penalties being assessed against DDC. In fact, on March 11, 2003 the Internal Revenue Service (IRS) notified DDC that it is subject to a penalty of \$1,884 as a result of filing late returns. The penalty is \$20 each day an entity is late, and penalties and interest accrue until the IRS receives payment.

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**APPENDIX** **23**

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**PAYMENTS TO CONTRACTORS FROM JULY 1, 2001 TO DECEMBER 31, 2002** **23**

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## INTRODUCTION

### ***Background***

The Dennis Housing Authority manages 152 units of state-subsidized housing and 150 state- and federally funded housing certificates. The Authority also owns and operates 13 units of housing located at Melpet Farms. The Town of Dennis donated a portion of its Melpet Farms property to the Authority and the rehabilitation of these units was intended to be performed under a \$400,000 construction loan obtained by the Authority. In addition, the Authority established a nonprofit subsidiary, the Dennis Development Corporation (DDC), which operates a senior center and provides day services for the elderly. The DDC's board members are the same as those of the Authority. The senior center is also located on land donated by the Town of Dennis, and its facilities are secured with an \$86,500 mortgage in the name of DDC.

### ***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 Authority for the period July 1, 2001 to December 31, 2002. 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 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 uncollectible tenants' 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.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and that 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.
- 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 October 15, 2002, while we were performing our audit of the Authority, the Executive Director resigned (see Audit Results No. 2). After her resignation, it became clear that the Authority had not established and maintained systems to control, monitor, and report on its operations. 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 believe that the Authority has failed to satisfy this requirement.

***Decline in Financial Position***

The Authority's mismanagement of its operating reserves and operating funds have placed the Authority in financial jeopardy, and questionable decisions by the Authority's Board of Directors and its former Executive Director contributed to this financial condition. Moreover, we determined that the board approved numerous questionable payments and did not fulfill its fiduciary responsibilities to provide adequate oversight for Authority operations. Our audit also determined that the Authority might not have the financial resources to complete its Modernization projects or to complete the rehabilitation of the housing units at Melpet Farms. Further, the Authority does not have the ability to continue payments on the Melpet Farms construction loan; continue payments on the mortgage at DDC; repay DHCD for the subsidy overpayment of fiscal year 2001; or repay the advances from the Authority's Revolving Fund to Melpet Farms.

***Undisclosed Loans***

The Authority's financial statements do not disclose loans of at least \$8,300 from the Authority to the DDC. Also, the Authority's Revolving Fund has advanced at least \$80,000 to the Melpet Farms project to cover its day-to-day operating expenses. These advances to Melpet Farms were also not reflected on the Authority's financial statements.

## AUDIT RESULTS

### 1. DECLINE IN FINANCIAL POSITION

Our audit revealed that the Dennis Housing Authority experienced a steady decline in its financial position. Specifically, its operating reserve had been drawn below the minimum allowable level established by the Department of Housing and Community Development (DHCD), its Revolving Fund had been used to fund rehabilitation projects; and significant amounts were owed to it from the Authority's programs. In addition, the Authority had borrowed funds to perform a rehabilitation project at Melpet Farms that has been mismanaged, is significantly incomplete, and may lack sufficient funding for completion. As of January 31, 2003 six of the project's 13 units were uninhabitable, and two of those six units have been gutted, with only the shells of the units remaining.

The Authority's operating reserve has dwindled from \$157,000 at the end of fiscal year 2001 to \$26,232 as of December 31, 2002. The Department of Housing and Community Development (DHCD) requires the Authority's minimum reserve to be \$96,621. In addition, the Authority's 400-1 program balance sheet reflects a liability in an account entitled "DHCD Subsidy Overpayment" totaling \$178,536, which equals cumulative overpayments of the Authority's annual subsidy. In a letter dated January 14, 2003, DHCD instructed the Authority to pay \$178,536 to the Commonwealth. However, to date the Authority has not yet done so.

As of December 31, 2002, the Authority had drawn down \$314,916 of the \$400,000 construction loan proceeds for the rehabilitation of Melpet Farms, leaving \$85,084 in available loan proceeds. The Authority has also loaned this project \$41,000 from its modernization fund. As of December 31, 2002, the Melpet Farms project has construction and related expenses totaling \$370,359. Contrary to sound business practices, rents from the occupied units at Melpet Farms are being commingled into the Melpet construction loan bank account and not into the Authority's operating account. The Authority's Revolving Fund is absorbing the day-to-day costs associated with the Melpet program.



The Dennis Development Corporation (DDC), a nonprofit subsidiary of the Authority, operates a adult day care center. The DDC has a mortgage on the senior center facility with a balance of \$86,483 as of December 16, 2002. The Authority has loaned the DDC \$7,500 and has made a \$799 mortgage payment for the DDC because it was past due. As of January 31, 2003 the DDC's mortgage was four months in arrears. This mortgage is secured by the senior center's building and land.

Our review indicated that the Authority might not have the financial resources to complete the rehabilitation of the Melpet Farms housing units or to complete its modernization projects. Further, the Authority's declining financial position may prevent it from being able to continue paying for the Melpet Farms construction loan; the mortgage at the Dennis Development Corporation; the subsidy overpayment of fiscal year 2001; or the advances due to the Authority's Revolving Fund from the Melpet Farms program.

The Authority's decline in financial condition is the result of a series of poor administrative and preconstruction design decisions (see Audit Result No. 3) made by both the Authority's former Executive Director and board, which has not fulfilled its oversight responsibilities to adequately monitor and review Authority operations. As of our audit date, the board has yet to develop a management plan to address the Authority's financial plight.

On March 11, 2003 the board, at DHCD's suggestion, voted to enter into a partnership with the Barnstable Housing Authority to manage the Authority on an interim basis (see Subsequent Events).

***Recommendation***

The Authority should work with DHCD and its lending institutions to develop a management plan to stabilize its finances and gain additional funding to complete its rehabilitation project and modernization projects.

**2. INADEQUATE CONTROLS OVER PAYROLL EXPENDITURES**

Our review of the Authority's payroll expenditures noted several deficiencies. Specifically, (a) payroll checks had been altered, (b) the former Executive Director received \$6,250 in

what appears to be excessive and improper compensation, and (c) unearned sick and vacation time had been awarded, as discussed below.

**a. Altered Payroll Checks**

During our review of the Authority's June 30, 2002 bank reconciliation we noted that 10 Authority payroll checks had been altered by having their dates whited out and replaced with new dates. Our analysis of the checks processed and paid during June 2002 revealed that all of the altered checks were payroll checks for the former Executive Director and a maintenance man. We compared the employees' timesheets with the payroll register and the cancelled checks and found that the checks paid in June 2002 were actually checks prepared for the month of July 2002. Our expanded testing revealed that during our audit period these two individuals had cashed 117 altered payroll checks with a value of \$63,881. Our testing and the related interviews of Authority staff and board members revealed the following deficiencies:

- Although all Authority payroll checks are required to be signed by board members for approval, we found that payroll checks were prepared and signed by board members up to six weeks in advance. Board members stated that the practice of signing payroll checks in advance is "convenient" for the board members. We also determined that if an employee earned overtime or premium pay, a second payroll check would be prepared for that pay period. The Authority could not explain how preparing and signing a second check would be convenient or efficient.
- The Executive Director indicated that a maintenance man entered the Executive Director's office without authorization and took from an unlocked file cabinet several payroll checks that were scheduled to be given to him the following month that had been previously prepared and signed. The Executive Director claimed that the maintenance man then altered the dates, initialed the changes, and presented the checks to the bank for cash.. We also learned that the maintenance man, at the former Executive Director's instructions, had taken her payroll checks from the unlocked cabinet, signed her name, altered the dates, and deposited her checks. None of these activities were approved by the Authority's board, as they were not notified of them.
- We found that the following questionable events allowed these improper activities to go undetected for a significant period of time:

- a. Although the Authority's monthly bank reconciliations we reviewed showed check numbers being out of sequence and payroll checks being cashed a month earlier than intended, the Authority's bookkeeper informed us that when she detected these payroll irregularities, the Executive Director instructed her to "mind her business" and to perform the reconciliation work as instructed.
  - b. The Authority's fee accountant did not compare expense information entered into the Authority's computer-based general ledger to the payroll register. Neither the Authority's board nor its fee accountant questioned fluctuations in the Authority's payroll expenses or in the comparisons of budgeted expenses to actual expenses. Since the Authority has only six full-time employees and one part-time employee, any such fluctuations in monthly expense activities should have been very noticeable.
  - c. Financial information presented to the board during the year and at fiscal year end, especially budget versus actual expenses, was flawed because of the impact of the altered checks. When questioned about the altered payroll checks, the Authority's fee accountant stated that he was not aware of the practice until September 2002, the period during which we were performing our payroll tests. However, we discovered that the March and April 2002 bank reconciliations, which the fee accountant performed while the Authority's bookkeeper was on sick and vacation time, and the June 2002 bank reconciliation, which he also prepared, all misrepresented the improperly cashed payroll checks as outstanding deposits in transit and expenses of the next month. Our audit revealed that, due to this practice, the Authority's year-end operating statement contained payroll expenses that were inflated by \$5,447. The fee accountant filed the erroneous financial statements with DHCD on August 27, 2002, which DHCD then used to calculate the Authority's operating deficit and related operating subsidies.
- On October 3 and October 8, 2002, the Authority's board met in executive session to question the maintenance man about his altering of payroll checks. (The board claims that at the time it was unaware that the former Executive Director was also taking and altering payroll checks). During the meeting, the maintenance man admitted to taking payroll checks and altering the dates and claimed that the former Executive Director allowed him to do so after he had informed her that he was encountering financial difficulties. He then admitted that on other occasions he had taken payroll checks, which he cashed to cover gambling debts. The board voted to place the maintenance man on a year's probation and required that he attend Gamblers Anonymous and not enter tenants' apartments without supervision.

When we questioned the former Executive Director about whether she had taken and altered payroll checks, she admitted that she had taken checks but claimed that it was money owed to her and that if it was a problem she had "plenty of time on the books" to cover any shortfall. Our review determined that these transactions were never processed as salary

advances in the Authority's accounting system and that, contrary to the Authority's enabling legislation, they were not approved as salary advances by the board.

When questioned about the board's signing checks in advance and the altering of checks, the board's Chairperson and Treasurer stated that they were not aware that the Executive Director had also been taking and altering payroll checks. We showed them several checks that had been so altered, and they stated that they would have to speak with the Executive Director. The former Executive Director resigned several hours after this meeting.

The former Executive Director has subsequently filed a wage complaint with the Office of the Attorney General claiming that she was owed \$8,275 for accrued vacation time. However, our review of timesheets, payroll records, and altered checks revealed that all the time claimed by the former Executive Director was actually time that had been taken or time that had not been earned. Nevertheless, the Office of the Attorney General found in her favor, and a notice of the finding was mailed to the Authority. The finding stated that the Authority should pay the award and that it had 30 days to file an appeal. DHCD has filed an appeal for the Authority, stating that the Authority is due \$1,655 from the former Executive Director. During our audit, we determined that the former Executive Director owed DHA an additional \$102 for a travel advance on a trip that was not taken.

We were also informed that the former Executive Director had filed an unemployment claim because she could not work due to "stress" from her duties at the Authority. The Department of Employment and Training has ruled favorably on her claim and has awarded her unemployment compensation although DHA had objected to her receiving unemployment.

**b. EXCESSIVE COMPENSATION**

According to budget documents filed with DHCD, the former Executive Director was a full-time employee and had no other duties to which her hours were allocated. Our review of the Authority's payroll determined that the former Executive Director received \$59,000 as a full-time employee and received additional compensation of \$5,000 for duties performed at

Melpet Farms. We also determined that the former Executive Director had received additional compensation of \$1,250 as a “tenant selection consultant” through a management contract between the Authority and a local real estate agency, Davenport Realty.

Davenport Realty, which was acting as an agent for a private developer who had developed affordable housing under Chapter 40B of the General Laws, advertised that applications for occupying these units were being accepted. The agency then paid the Authority’s former Executive Director to screen these applications for eligibility, which the former Executive did during her normal work hours at the Authority. The Authority could not explain the duty hours of the former Executive Director or what additional duties she had performed at Melpet Farms that was above and beyond the duties for which she was already paid as Executive Director of the Authority.

**c. AWARDING OF UNEARNED SICK AND VACATION TIME**

Our review of the Authority’s payroll records disclosed that the former Executive Director had improperly awarded sick and vacation time totaling \$13,173 to several Authority employees, contrary to the Authority’s Employee Handbook & Personnel Policies, which states that “Employees leaving before six months of employment are not entitled to earn annual leave.”

For example, on July 23, 2001 the Authority hired a maintenance man. The payroll records of the Authority indicate that this individual, contrary to the Authority’s personnel policies, started his employment with a balance of 36.25 vacation days, 5.25 sick days, and three personal days. Moreover, on December 19, 2001, less than five months after his start date, this individual left the employment of the Authority, by which point he had been improperly awarded 36.25 vacation days, 18 sick days, and three personal days at a cost of \$6,723 to the Authority.

We also determined that five other employees were awarded \$6,450 in sick and vacation time to which they were not entitled, as follows:

| Position                 | Amount         |
|--------------------------|----------------|
| Clerk                    | \$1,120        |
| Maintenance Supervisor   | 2,304          |
| Maintenance Man          | 1,127          |
| Maintenance Man          | 750            |
| Leased Housing Assistant | <u>1,149</u>   |
|                          | <u>\$6,450</u> |

***Recommendation***

The Authority should:

- Utilize its payroll software to manage and control its accrued sick and vacation time.
- Discontinue its practice of preparing and signing checks in advance of the pay period in which the expenses are incurred.
- Review and update its payroll procedures.
- Appeal DET's decision to award unemployment compensation to the former Executive Director.
- Recover all overpayments made to its former employees, including the former Executive Director.
- Cease its practice of using management contracts to award compensation to Authority employees.

**3. MISMANAGEMENT OF MELPET FARMS REHABILITATION PROJECT**

Our audit indicated that the Authority did not adequately administer its rehabilitation project for its Melpet Farms property, six acres of land deeded by the Town of Dennis on which the Authority is required by restrictive covenant to develop affordable housing. Specifically, we found the following deficiencies (a) inadequate project planning, (b) questionable use of construction loan funds, (c) vacant and uninhabitable units, and (d) inadequate controls over project operating revenues and expenses. On March 4, 2002, the Authority obtained a \$400,000 construction loan that will convert into a five-year note after 18 months to rehabilitate the property's 13 existing units. As of January 31, 2003, after the Authority had expended \$370,359 of this amount, only seven of the 13 units were occupied and habitable.

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**a. Inadequate Project Planning**

The Authority began rehabilitation work at Melpet Farms in November 2001, four months before the Town of Dennis transferred the Melpet Farms property to the Authority on February 22, 2002. Our review determined that the Authority did not adhere to applicable laws, rules, and regulations concerning the construction or rehabilitation of public buildings. Moreover, we found that the Authority lacked adequate planning for the rehabilitation project, as discussed below.

- Contrary to sound business practices, the Authority paid for rehabilitation work on the Melpet Farms property from its Modernization Fund because it had not established financing for the rehabilitation project during its initial stages. Moreover, the Authority continued work on the rehabilitation project without developing a budget, and we saw no documentation that would indicate that the \$400,000 construction loan it obtained would be sufficient to satisfactorily complete such a project. We also saw no evidence that the Authority had conducted an analysis to determine the levels of income necessary to fund operating costs and repay the debt that it was about to incur.
- The Authority had not hired a structural engineer to review and assess the Melpet facilities or an architect to develop project plans. In correspondence dated April 26, 2001 the town's building inspector detailed numerous structural problems and code violations observed at the Melpet site. Within this correspondence, the building inspector suggested that the Authority's engineer and architect propose solutions in their filings with the town. Moreover, the building inspector noted electrical problems that should have been resolved with the town's wire inspector during the permitting process. However, these filings were never made, and there were no applications for permits.
- The Authority awarded, without bid, electric and general contracting work totaling \$244,600 for the Melpet Farms rehabilitation project in an arbitrary and piecemeal manner (See Appendix for the details of this expenditure pattern). Much of the work that was performed was uncoordinated because the Authority did not have detailed plans or a work schedule. In addition, the Authority did not hire a clerk of the works to coordinate the various tasks being performed. For example, electric work was performed at a unit that was subsequently demolished, work was billed for a unit that did not exist, and another unit's electric work was performed before any other rehabilitation work was undertaken, resulting in an unnecessary expense.
- Extensive termite damage was found in several of the structures being rehabilitated. The Authority had not paid for a termite inspection. The Authority contracted with

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an exterminator to treat the Melpet properties and return to inspect the properties on a regular basis. This service has cost the Authority \$4,534.

- On July 30, 2001 the health inspector of the Town of Dennis notified the Authority that the septic systems at Melpet Farm had failed an inspection and would have to be upgraded within two years. The Authority solicited bids to replace four existing septic systems, including the demolition and removal of an existing in-ground pool. Although a contract for \$38,600 was awarded to replace the septic systems, the final cost for the septic replacement totaled \$51,846.
- While reviewing the septic system replacement we were told by the maintenance staff that when the in-ground pool was demolished the pool's pump was delivered to a board member's home. This task required two Authority maintenance men to spend half a workday to disconnect the pump, transport it in an Authority truck, and set it up at the board member's home, where it was used to filter an outdoor pond.

**b. Questionable Use of Construction Loan Funds**

On March 4, 2002, the Authority borrowed \$400,000 to rehabilitate the grounds and the housing units at Melpet Farms. The loan will convert to a five-year note after eighteen months. As of December 31, 2002 the Authority has drawn \$314,916 from the construction loan proceeds, leaving \$85,084 construction funds available. The Authority also has a balance of \$10,451 in the project bank account. Melpet Farms was also advanced \$41,000 from the Authority's Modernization Fund and has its day-to-day operating expenses funded through the 400-1 Revolving Fund. We found the following improprieties regarding the Authority's use of the construction loan funds:

- The Authority originally opened a checking account for Melpet Farm's operating funds but, contrary to sound business practices, has since commingled the construction loan proceeds and its rental income in this account. This practice has caused misrepresentations in the reporting of Melpet Farms operating results and the cost of rehabilitating the housing units. In addition, the Authority is paying its monthly loan payment from this account rather than an operating fund, further depleting the funds available to complete the rehabilitation of the housing units.
- The Authority spent \$9,988 from the construction loan to purchase a new computer system for the central office.
- Construction funds were used to loan \$6,300 to the Dennis Development Corporation (DDC). This loan was made without a vote by the board.



- Included in the miscellaneous construction category is \$18,472 for the purchase of a swing set and \$3,576 for outdoor furniture. (As described in Audit Result No. 4b, this swing set and outdoor furniture are still in their shipping materials and stored in the basement of the Authority's central office.)

The following is an analysis of expenses charged to the Melpet construction loan as of December 31, 2002:

|                                  | Payments         |
|----------------------------------|------------------|
| Catten Construction GC           | \$174,155        |
| Romano Electric                  | 70,445           |
| Replace Existing Septic System   | 51,846           |
| Miscellaneous Construction Costs | 25,219           |
| Computer for Central Office      | 9,988            |
| Construction Loan Payments       | 9,025            |
| Heat & Utilities                 | 8,744            |
| Dennis Development Corp. Loan    | 6,300            |
| Termite Control                  | 4,534            |
| Bank Charges                     | 8,958            |
| Miscellaneous Charges            | 1,145            |
| Total Payments                   | <u>\$370,359</u> |

#### **c. Vacant and Uninhabitable Units**

As of the end of our audit fieldwork, six of the remaining Melpet Farms 13 units were vacant. Two of the units suffered extensive termite damage and had to be completely gutted. The tenants in three other units had to be moved because the building in which they were housed had an unheated crawl space, and the water pipes burst because of freezing temperatures. These tenants were initially housed in a hotel and later moved to Authority units as they became available. Currently there is not sufficient construction funding available to complete the rehabilitation of these units.

#### **d. Inadequate Controls over Operating Revenues and Expenses**

The Authority's board had not adopted procedures for processing the day-to-day operating revenues and expenses of the Melpet Farm Project. Although many of Melpet Farm's operating expenses are paid through the Authority's Revolving Fund, the project does not contribute to the Revolving Fund. Also, Authority management indicated that they felt federal and state rules do not apply to Melpet's operations because the project is not

subsidized; yet Authority funds are used to fund Melpet Farm's operations. We noted the following deficiencies:

- The Authority does not follow any of the state bid laws in contracting for construction services or equipment.
- Salaries and bonuses are paid through Melpet because DHCD approval is not needed on Melpet expenses.
- The board has not adopted procedures for selecting tenants or determining rents at Melpet Farms.
- The board has loaned the DDC construction funds totaling \$6,300 but has never recorded such loans on either the Authority's or Melpet's balance sheet. Moreover, the board loaned these funds without establishing a loan agreement that defines interest rates or terms of repayment. In addition, the board never voted to loan these funds to the DDC.
- The Authority never issued 1099-MISC income information forms to the general contractor and electrician for work performed at Melpet Farms during calendar year 2001. Internal Revenue Service (IRS) regulations require entities paying for services that exceed \$600 to prepare and file 1099-MISC forms with the IRS. We discussed this situation with the Interim Executive Director, who instructed Authority staff to prepare and file 1099-MISC forms for both calendar years 2001 and 2002.

***Recommendation***

The Authority should:

- Establish fund accounts in the General Ledger and at the bank for Melpet Farm construction activities and operations and restrict their use to those purposes.
- Recalculate the Authority's overhead allocation rate so that Melpet Farms is paying its fair share of administrative overhead expenses and identify and have the Melpet Farms Development pay for those direct expenses that are related to the day-to-day operations of Melpet Farms (e.g., labor, utility, insurance, and mortgage costs).
- Establish the amount that will represent the Melpet Farms Development's monthly advance payment to the Revolving Fund to ensure that the development reimburses the Authority for its share of administrative expenses.
- Ensure that all required 1099-MISC income information forms are properly prepared and filed.

In addition, the Authority's board should:

- Review and update the Authority's procurement procedures for supplies, equipment, and services to ensure compliance with state bidding requirements and communicate all changes to Authority staff.
- Review and update procedures for processing construction-related requests for payment and vouchers for operating expenses.
- Adopt procedures for collecting and depositing operating revenues and rents into an operating account and for processing operating expenditures of the Melpet Farms Development.
- Recover the unauthorized loans made to the Dennis Development Corporation and deposit these funds into the Melpet Farms Development construction fund.
- Adopt procedures for tenant eligibility, tenant selection, and rent determination at the Melpet Farms development.

#### **4. NONCOMPETITIVELY AWARDED CONTRACTS**

Our review revealed that the Authority did not follow statutory requirements for the procurement of building repair and construction services and equipment and supplies. Specifically, the Authority did not adhere to Chapter 149, Section 44A, of the General Laws, which requires every contract by a public agency for building construction, reconstruction, installation, demolition, maintenance, or repair costing more than \$25,000 be put out to bid, and Chapter 30B of the General Laws (the Uniform Procurement Act), which requires public entities to seek verbal or written quotes for the procurement of supplies or equipment totaling between \$5,000 and \$25,000. In addition, contrary to Chapter 30B, the Authority did not designate a procurement officer, create procurement files, or maintain procurement records for at least six years from the date of final payment of each contract. During our audit period the Authority improperly entered into \$409,324 in noncompetitively awarded contracts for goods and services.

##### **a. Construction Services**

During our audit period the Authority awarded, without seeking competitive bids, rehabilitation work totaling \$409,324 to a general contractor and an electrician. A

breakdown of the work follows (see Appendix for a more detailed analysis of these expenditures):

| Electric Work                      | Amount           |
|------------------------------------|------------------|
| Emergency Repairs                  | \$38,750         |
| Windmill Village Repairs           | 50,000           |
| Old Bass Repairs                   | 20,445           |
| Replace Electric Panel - Center St | 27,849           |
| Replace Outside Lighting           | 9,680            |
| Melpet Farms                       | 70,445           |
| Authority Central Office           | <u>18,000</u>    |
| Total                              | <u>\$235,169</u> |
| General Contractor                 |                  |
| Melpet Farms                       | <u>\$174,155</u> |
| Total of Work Awarded without Bid  | <u>\$409,324</u> |

Examples of no-bid contract payments follow:

The Authority reported an electric emergency to DHCD in June 2001. Specifically, a circuit panel had to be replaced because it was a fire hazard. The repairs, which were funded by DHCD, were not performed until October 2001. The former Executive Director awarded this work to a journeyman electrician, who then contracted the work to an electrical parts supplier.

According to documents provided by the electrical part supplier, he billed and received \$22,939 from the journeyman, who billed and received \$65,525 from the Authority, netting a profit of \$42,586. The only work the journeyman electrician performed was telephoning the electrical parts supplier and reattaching the existing wiring to the current panel that was installed by the electrical parts supplier. Therefore, the Authority could have saved \$42,586 by calling several parts suppliers for price quotes.

- We determined that the electric work replacing the outside lighting at the Authority's Windmill Village was an unnecessary expenditure. Specifically, energy-efficient lighting that had been donated to the Authority was installed on June 20, 2001. Less than four months later, on October 2, 2001, this lighting was replaced with incandescent lighting at a cost of \$9,680. There is no documentation explaining why this lighting was replaced.
- This journeyman electrician was also paid \$8,475 to install and was advanced \$4,225 to purchase a hard-wired smoke alarm system at the Melpet Farms development. However, our physical inspection of the development indicated that no such smoke alarm system had been installed. In fact, several of the units we inspected had recently been gutted, and no new wiring or new smoke alarms were observed.

- The majority of work performed by the general contractor was performed on a time and materials basis in which the Authority was charged for the costs of materials used and hours worked, plus 25% for overhead and profit. Such an arrangement provides the tradesperson no incentive to be efficient or reduce costs. In fact, our review of the general contractor's requests for payment disclosed that wage rates and materials costs had been inflated. For example, the general contractor charged labor rates ranging from \$35/hour to \$40/hour for his workers, whereas the federal Bureau of Labor Statistics data indicated that the average hourly wage for a carpenter in the metropolitan Boston area was \$21.59 during the survey period. Moreover, the general contractor charged \$15,000 to install new shingling on a two-story building that contains two housing units. However, two local contractors whom we contacted agreed that a job of this size, which would require 14 squares of shingles, should have cost no more than between \$6,000 and \$6,500.
- We noted a strange pattern in the electrician's payment requests. Specifically, the majority of payments were less than \$5,000, and often two or three payments were made in a single day or a cluster of checks were issued in the single week. Such a pattern could represent a deliberate attempt to circumvent state and federal regulations (e.g, the state's \$5,000 threshold over which verbal and written price quotes must be obtained, the federal \$10,000 currency transaction reporting limit). In addition, many of these checks were made payable to the electrician, who presented them to the bank for cash, and not deposited into a company bank account. (See Appendix for a detailed analysis of these expenditures).
- The Authority did solicit bids for one contract with a maximum obligation of \$25,000 to replace the decks and siding at the Authority's elderly project. When the contractor who was awarded the contract finished replacing the decks, the former Executive Director informed him that the Authority was not going to proceed with replacing the siding. However, the former Executive Director asked the contractor whether he would be interested in making a proposal for the entire Melpet Farms rehabilitation project. The former Executive Director then used the contractor's detailed proposal as part of the information package used to obtain the construction loan. When the rehabilitation work began at Melpet Farms and this general contractor inquired why he was not given a chance to bid the job, he was informed that he "must have missed the bid notice." However, we could find no evidence of any published notice to bid, and no contracts were developed or signed for the rehabilitation of Melpet Farms.

#### **b. Supplies and Equipment**

During fiscal year 2003, the former Executive Director made a series of large purchases of supplies and equipment from a local wholesale supplier. These purchases, which totaled \$39,290, were for cleaning supplies, waste receptacles, outdoor furniture, and a swing set. These purchases were made without any oral or written price quotes. Further, the necessity

of these purchases is questionable. For example, \$16,000 was spent for several large purchases of cleaning supplies. This represents more cleaning supplies than the Authority could use in several years. The outdoor furniture costing \$3,576 and the swing set costing \$18,436 were for Melpet Farms, which is still undergoing rehabilitation work and has no children in residence. During our inspection of the Authority's central office, we observed dozens of boxes of cleaning supplies, barrels of cleaner, and the swing set still in its shipping material all stored in the basement of the Authority's central office. A listing of the questionable purchases of supplies and equipment follows.

| Product                          | Quantity            |
|----------------------------------|---------------------|
| Bullseye Spot Remover            | 8 cases 12 qt./case |
| Misty Halt Drain Opener          | 7 cases 12 qt./case |
| Lemon Cleaner                    | 3 cases 4 gal./case |
| Spray & Wipe                     | 3 cases 12 qt./case |
| Rhino Defense (bathroom cleaner) | 1 case 12 qt./case  |
| Rhino Floor Finish               | 2 cases             |
| Rhino Floor Cleaner              | 1 case 12 qt./case  |
| Rhino Disinfectant Bowl Cleaner  | 2 cases 12 qt./case |
| Rhino Cherry                     | 1 case 12 qt./case  |
| Trisodium Phosphate              | 1 - 50lb. Bag       |
| Park Bench (6 ft.)               | 2                   |
| Park Bench (8 ft.)               | 2                   |
| Park Table                       | 2                   |
| Super Rags                       | 3 cases - 250/case  |
| Rubbermaid 55 gal. Barrel        | 3                   |
| Rubbermaid 55 gal. Barrel lid    | 3                   |

In November 2002, the supervisor of maintenance, at the direction of the acting Executive Director, sought to establish a fair price for the swing set and outdoor furniture. The supervisor contacted the state's Operational Services Division (OSD) and was informed that the state had entered into a five-year contract with several vendors who would supply plastic and recycled plastic products at a set price. A vendor from the OSD's list whom we contacted quoted a total price of \$14,810 for the outdoor furniture and swing set that the Authority paid \$22,012 for without seeking bids.

During our audit the interim Executive Director attempted to return much of the unopened cleaning supplies, but the local vendor refused to accept them. In addition, the interim Executive Director withheld payment on the swing set and outdoor furniture while attempting to return them. However, the vendor not only refused to accept them but also initiated legal action to demand payment. The vendor agreed to stop legal action if the Authority agreed to pay the balance due, and the Authority agreed to pay \$2,000 a month until the outstanding balance of \$13,872 is paid.

**c. Bank Fees**

In December 2001 the board approved a proposal to change the Authority's banking institution. This change was initiated without the Authority's soliciting and analyzing the type and cost of services provided, the cost of maintaining accounts, and the interest rates paid by various banks. The Authority opened 14 accounts with the new institution. However, rather than close out its 10 accounts at the old bank, into which DHCD and HUD continued to deposit funds, it kept them open and then transferred by check such deposits into the new accounts.

We also noted that the Authority's former banking institution did not charge for services and fully collateralized all account balances in excess of \$100,000. In contrast, the Authority's new bank charged banking fees totaling \$1,823 during calendar year 2002, and the Authority had not arranged with the bank to have any balances exceeding \$100,000 collateralized.

***Recommendation***

The board should:

- Review and update its procurement procedures, including the designation of a procurement officer.
- Review the documentation of all large procurements and the related documentation of expenditures.
- Refer certain construction contract transactions to the appropriate law enforcement officials since there appears to be a violation of Chapter 5, Section 5, and Chapter 266A, Section 67A, of the General Laws, which prohibit the making of any false,

fictitious, or fraudulent claims or participating in a trick or scheme to submit false claims to the Commonwealth or any of its political subdivisions.

- Consider transferring the bank accounts back to the bank that the Authority utilized prior to December 2001.

## 5. QUESTIONABLE BOARD EXPENDITURES TOTALING \$7,808

Although in the past the Authority would attend only the annual Massachusetts National Association of Housing and Redevelopment Officials (NAHRO) conference on Cape Cod and would not frequently attend out-of-state conferences, we noted that during our audit period the Authority's board and former Executive Director attended numerous NAHRO conferences and seminars that required the Authority to pay for room, board, and mileage. Examples of these conferences included overnight trips to The Balsam's in New Hampshire (two attendees); Martha's Vineyard (three attendees); the Hyatt Regency in Newport, Rhode Island (two attendees); and the Woodstock Inn and Resort (one attendee). The Authority's total cost of attending these conferences amounted to \$7,808.

Our review revealed that these expenses were questionable because they were poorly documented and were allocated to seemingly unrelated programs without any basis or justification. Further, during a period when the Authority did not have the financial resources to justify these expenses and needed the active oversight of the board, these expenditures appear to be unreasonable.

### ***Recommendation***

The board should review and strengthen the Authority's policies for attending seminars and conferences. Each month the board should also review the Authority's current budget projections to determine whether funding is available for planned expenditures. In addition, the board should require that all conference expenditures are properly justified and documented.

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

In response to all of the issues presented in our report, the Dennis Housing Authority's Board of Commissioners provided the following comments:



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*The Commissioners and management of the Dennis Housing Authority have received and reviewed the draft audit of the Dennis Housing Authority encompassing the dates July 1, 2001 to December 31, 2002 and are grateful for its detail and recommendations. The audit clearly identifies numerous instances of wrongdoing and neglect on the part of management and lack of some oversight on the part of the Board of Commissioners. The Commissioners recognize that recommendations made are intended to correct procedures that allowed past events to have occurred. In addition, the Commissioners and management of the Dennis Housing Authority acknowledge the general accuracy of the statements in the audit and regret that the incidents identified took place. The Dennis Housing Authority has previously identified some of the problems enumerated in the Audit and has already taken steps to correct those problems. In order to assure the community as well as the Department of Housing and Community Development and the residents of the Dennis Housing Authority that rely on the continued and effective functioning of the Housing Authority that the Commissioners' first priority in responding to the audit lies with the effective functioning both ethically and fiscally of the agency, the Dennis Housing Authority will:*

- 1. Continue to take steps to identify problems and put into place policies, procedures and practices that have adversely affected the management and financial integrity of the Authority.*
- 2. Review each and every recommendation made in the audit and, working with the Dennis Housing Authority partner, Barnstable Housing Authority, develop and follow a road map that will assist in establishing a more productive and efficient operation.*
- 3. Insure that the proper oversight is provided to prevent any future loss of Dennis Housing Authority funds and integrity.*
- 4. Maintain an open relationship with the public, the press, and other state and town boards, commissions and agencies for the purpose of refocusing on the agency's mission of providing decent, safe, affordable housing to Dennis citizens.*
- 5. Provide a copy of the audit to the Attorney General's office and any other appropriate investigative agency with a request that investigations be conducted into any and all illegal activity including embezzlement, theft, tax evasion, etc., and as appropriate, prosecute people responsible for any such activity. The Dennis Housing Authority will cooperate with any and all investigative agencies.*
- 6. Seek through all available legal means to recoup any Dennis Housing Authority funds taken through illegal and/or negligent acts.*

### **SUBSEQUENT EVENTS**

On March 11, 2003 the Dennis Housing Authority's board voted to cancel its search for a new Executive Director and entered into a partnership with Barnstable Housing Authority (BHA). The purpose of the partnership is to utilize the strengths and extensive knowledge of public housing that BHA's management team possesses to stabilize the Authority's perilous financial position. The scope of BHA's duties and its financial reimbursements are being negotiated.

We determined that through March 31, 2003, the Authority's nonprofit subsidiary, DDC has not filed the required federal income tax return Form 990 for the fiscal years ended June 30, 2001 and June 30, 2002. Also, DDC has not yet filed the required Form PC with the Public Charities Division within the Massachusetts Attorney General's Office for fiscal years ended June 30, 2001 and 2002. This delinquency could result in fines and penalties being assessed against the DDC. In fact, on March 11, 2003 the Internal Revenue Service (IRS) notified the DDC that they are subject to a penalty of \$1,884 as a result of filing the return late. The penalty is \$20 each day an entity is late, and penalties and interest accrue until the IRS receives payment.

## APPENDIX

### Payments to Contractors From July 1, 2001 to December 31, 2002

| Date of Proposal | Date of Check | Check No. | Description  | Electrician | General Contractor |
|------------------|---------------|-----------|--|-------------|--------------------|
| 07-18-01         | 07-19-01      | 14635     | Windmill Village – Breaker                                   | \$ 2,500    | -                  |
| 08-05-01         | 07-23-01      | 14636     | Center Street – Emergency                                    | 17,500      | -                  |
| 07-18-01         | 07-24-01      | 14637     | Windmill Village   | 2,000       | -                  |
| 08-05-01         | 08-06-01      | 14642     | Retrofit/Emergency – Center Street                           | 17,500      | -                  |
| 06-20-01         | 08-06-01      | 14641     | Center Street – Emergency                                    | 17,175      | -                  |
| 08-17-01         | 08-23-01      | 14752     | #1 Rewire Windmill   | 4,600       | -                  |
| 08-21-01         | 08-23-01      | 14751     | #2 Rewire Windmill   | 4,600       | -                  |
| 08-27-01         | 08-27-01      | 14754     | Windmill Village Rewire, Retrofit                            | 4,600       | -                  |
| 08-24-01         | 08-27-01      | 14756     | Windmill Village – Retrofit, Rewire                          | 4,600       | -                  |
| 08-25-01         | 08-27-01      | 14755     | Windmill Village – Retrofit<br>Switchboard                   | 3,990       | -                  |
| 08-25-01         | 09-10-01      | 14816     | 10 Mulhern Drive – Lisa Ellis                                | 125         | -                  |
| 08-25-01         | 09-13-01      | 14885     | Invoice – 2207   | 235         | -                  |
| 08-05-01         | 09-20-01      | 14897     | Balance - Retrofit   | 3,750       | -                  |
| 06-20-01         | 09-20-01      | 14896     | Balance – Retrofit   | 9,600       | -                  |
| 10-02-01         | 10-02-01      | 14943     | Old Bass, Install Ballasts                                   | 4,840       | -                  |
| 09-27-01         | 10-02-01      | 14935     | Old Bass, Install Ballasts                                   | 4,840       | -                  |
| 09-18-01         | 10-29-01      | 15019     | Design Engineers   | 960         | -                  |
| 10-12-01         | 10-29-01      | 15020     | Windmill – Install Panel and New<br>Breakers                 | 980         | -                  |
| 11-08-01         | 11-13-01      | 1005      | Melpet – Barn  | 3,800       | -                  |
| 11-08-01         | 11-13-01      | 1006      | Melpet – Barn  | -           | 6,400              |
| 12-05-01         | 12-11-01      | 15214     | Old Bass River – Light Fixtures                              | 2,500       | -                  |
| 11-08-01         | 12-12-01      | 991       | Melpet   | 380         | -                  |
| 12-05-01         | 12-12-01      | 15220     | Mulhern Drive Unit #14                                       | 525         | -                  |
| 12-05-01         | 12-12-01      | 15219     | Old Bass River – Balance on<br>Light Fixtures                | 2,997       | -                  |
| 11-08-01         | 12-19-01      | 1001      | Replacement Check #992                                       | 5,000       | -                  |
| 11-08-01         | 12-27-01      | 1002      | Melpet Unit #10  | 10,500      | -                  |
| 11-08-01         | 01-03-02      | 1003      | Melpet Unit #8 and #10 Gut and<br>Remodel                    | -           | 11,121             |
| 11-08-01         | 01-17-02      | 1006      | Melpet Unit #11  | 3,500       | -                  |
| 01-17-02         | 01-17-02      | 1010      | Melpet Units #10 & #11                                       | 625         | -                  |
| 01-17-02         | 01-17-02      | 1008      | Melpet Unit #10 – Remodel &<br>Meetings with ED, & Inspector | -           | 5,092              |
| 01-17-02         | 01-17-02      | 1009      | Melpet Unit #8 – Remodel                                     | -           | 4,100              |
| 01-06-02         | 01-23-02      | 15355     | Center Street – Supply Relays -<br>& Unit #4 Melpet Rewire   | 5,455       | -                  |

## APPENDIX (CONTINUED)

| Date of Proposal | Date of Check | Check No. | Description  | Electrician | General Contractor |
|------------------|---------------|-----------|--|-------------|--------------------|
| 01-17-02         | 01-23-02      | 15358     | Units #7 & #9 Crestwood Lane                                   | 2,000       | -                  |
| 01-22-02         | 01-23-02      | 15366     | Melpet – Six Gang Meter/Smoke Detectors                        | 4,420       | -                  |
| 01-22-02         | 01-31-02      | 15376     | Melpet Units #1 - #16  | 5,995       | -                  |
| 12-27-01         | 01-31-02      | 15374     | Melpet Unit #7   | 2,800       | -                  |
| 01-31-02         | 02-08-02      | 1012      | Melpet Unit #10, Remodel & Meetings with ED, Board & Inspector | -           | 9,053              |
| 02-11-02         | 02-12-02      | 15475     | Old Bass Units #104 & #111                                     | 645         | -                  |
| 02-10-02         | 02-10-02      | 15445     | Old Bass, 8 Units  | 4,200       | -                  |
| 02-12-02         | 02-12-02      | 1020      | Melpet Unit #7 – Gut   | -           | 1,800              |
| 02-12-02         | 02-14-02      | 15480     | Old Bass River, Correcting Heating, Breaker Replacements       | 5,750       | -                  |
| 02-10-02         | 02-14-02      | 15482     | Old Bass Ballasts Replacement                                  | 2,040       | -                  |
| 02-18-02         | 02-27-02      | 15492     | Old Bass River ½ 16 Units Breaker Replacement                  | 4,600       | -                  |
| 02-12-02         | 02-18-02      | 15484     | Old Bass River, New Ballasts in all Units and Common Area      | 3,110       | -                  |
| 02-12-02         | 02-27-02      | 15493     | Old Bass River, New Ballasts in all Units and Common Area      | 3,000       | -                  |
| 02-18-02         | 02-18-02      | 15483     | Old Bass River Ballasts Replacement                            | 4,600       | -                  |
| A                | 03-05-02      | 1023      | Melpet Unit #7   | 1,800       | -                  |
| A                | 03-05-02      | 1024      | Melpet Unit #8   | 2,800       | -                  |
| 02-08-02         | 03-08-02      | 1026      | Melpet ½ Fire Alarm System                                     | 4,225       | -                  |
| B                | 03-08-02      | 1025      | Melpet Units #7, #8 & #10 – Remodel                            | -           | 30,570             |
| 11-08-01         | 03-21-02      | 1036      | Melpet Unit #2   | 3,500       | -                  |
| 11-08-01         | 03-21-02      | 1037      | Melpet Unit #5   | 3,500       | -                  |
| 11-08-01         | 03-21-02      | 1038      | Melpet Unit #6   | 3,500       | -                  |
| 11-08-01         | 04-10-02      | 1041      | Melpet Unit #12  | 3,500       | -                  |
| 12-27-01         | 04-17-02      | 1050      | Melpet Unit #7   | 2,800       | -                  |
| 11-08-01         | 04-10-02      | 1042      | Melpet Unit 12A  | 3,500       | -                  |
| 11-08-01         | 04-10-02      | 1043      | Melpet Unit #14  | 3,500       | -                  |
| 04-15-02         | 04-17-02      | 1049      | Melpet Units #9 & #9A  | 1,050       | -                  |
| 04-22-02         | 04-22-02      | 1053      | Melpet Units #7, #8, #10, & #11 – Remodel                      | -           | 17,342             |
| 12-27-02         | 04-29-02      | 1054      | Melpet Units #7 & #8   | 3,000       | -                  |
| 05-05-02         | 05-06-02      | 1062      | Melpet Units #7 & #8   | 2,600       | -                  |
| 05-05-02         | 05-06-02      | 1063      | Melpet Units #7 & #8 – Additional Work                         | 480         | -                  |
| 05-05-02         | 05-06-02      | 1064      | Melpet ½ Fire Alarm System                                     | 4,250       | -                  |
| 05-06-02         | 05-06-02      | 1060      | Melpet Unit #7 – Remodel                                       | -           | 7,250              |
| 05-06-02         | 05-06-02      | 1061      | Melpet Unit #8 – Remodel                                       | -           | 5,850              |
| 05-05-02         | 05-07-02      | 5770      | Unit #A-28 McElroy Emergency                                   | 2,535       | -                  |
| 05-31-02         | 05-31-02      | 1072      | Lions Club Fair at Melpet                                      | 1,850       | -                  |
| 06-28-02         | 07-01-02      | 1078      | Melpet Unit #7 – Remodel                                       | -           | 15,453             |
| 05-05-02         | 07-01-02      | 15916     | Mulhern Drive/36 Smoke Detectors                               | 1,800       | -                  |
| 07-05-02         | 07-08-02      | 1084      | Melpet Unit #9 – Demolish                                      | -           | 4,550              |
| 07-24-02         | 08-13-02      | 1095      | Melpet Unit #7 (Interior) Final Payment & Front Bldg. Drainage | -           | 11,752             |

**APPENDIX (CONTINUED)**

| Date of Proposal | Date of Check | Check No. | Description   | Electrician      | General Contractor |
|------------------|---------------|-----------|---|------------------|--------------------|
| 09-11-02         | 09-12-02      | 1109      | Melpet Unit #7 & #8 Install Lines for Hot Water Heaters, Exterior Decks | -                | 12,162             |
| 09-12-02         | 09-16-02      | 1230      | Units #6 & #8 Grassy Pond   | 385              | -                  |
| 09-12-02         | 09-17-02      | 1110      | Melpet Outdoor Lighting   | 785              | -                  |
| 10-02-02         | 10-03-02      | 1111      | Melpet Unit #8 – Remodel  | -                | 19,153             |
| 10-07-02         | 10-08-02      | 1116      | Melpet Unit #10 – Remodel & Units #1 & #2 Gut                           | -                | 12,507             |
| A                | 10-08-02      | 1329      | Invoice Not Found   | 972              | -                  |
|                  |               |           | Total   | <u>\$235,169</u> | <u>\$174,155</u>   |

Legend:

A – No Proposal on File

B – Four Proposals Submitted