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

OFFICIAL AUDIT REPORT

AUGUST 12, 2010

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Dennis Housing Authority for the period July 1, 2006 to December 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit reports (No. 2006-0642-3A and 2003-0642-3A).

The Authority manages 152 units of state-subsidized housing and 139 state- and federally funded housing certificates. The Authority also owned and operated several rental units at Melpet Farms, six acres of land deeded from the Town of Dennis on which the Authority was required by restrictive covenant to develop affordable housing. Our follow-up review determined that the management of the Melpet Farms project ended on or about March 5, 2008, with the property being transferred to the Town of Dennis, under the exercise of the right of reverter. Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 30-month period ended December 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

Our prior audit reports (No. 2003-0642-3A and No. 2006-0642-3A) of the Authority noted deficiencies in the Authority's (a) financial position and (b) management of the Melpet Farms rehabilitation project. Our follow-up review revealed that, although the Authority has taken steps to address these issues, further action is required, as discussed below.

Our prior audit reports of the Authority indicated that the Authority had experienced a steady decline in its financial position. Specifically, its operating reserves 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 $95,385 of the Melpet Farms rehabilitation project, and $41,000 was loaned from the Authority's modernization fund to rehabilitate Melpet Farms units. In addition, the audits disclosed that the Melpet Farms rehabilitation project had not been managed properly, was significantly incomplete, and lacked sufficient funding for completion. The prior reports noted that the Authority did not have the financial ability to repay (a) the principal of the construction loan, (b) the advances owed to the Revolving Fund, (c) the loan from the Authority's modernization program, and (d) subsidy overpayments to DHCD.

Our follow-up review determined that the Authority has defaulted on its construction loan and is in litigation with the lender for nonpayment. Secondly, the Authority, in its annual operating budget for the fiscal year ended June 30, 2008, requested a write-off of $109,760 of advances owed the Revolving Fund and $41,000 loaned from the Authority's modernization program for funds expended on the Melpet Farms rehabilitation project. However, the request was subsequently denied by DHCD. Our follow-up review further determined that the Authority has repaid prior subsidy overpayments owed to DHCD. However, the Authority's financial position still needs improvement. Specifically, the Authority's operating reserves have further dwindled since our prior audit and are significantly below the minimum operating reserves level of $72,000 set for an Authority of its size. As a result, the Authority could be prevented from performing preventive maintenance as needed.

Our prior audits indicated that the Authority had not adequately administered its rehabilitation project for its Melpet Farms property. Specifically, the audits reported the following deficiencies: inadequate project planning, questionable use of construction loan funds, vacant and uninhabitable units, and inadequate controls over project operating revenues and expenses. In addition, it was noted that the Authority obtained a $400,000 construction loan with the purpose of rehabilitating the Authority's 13 existing units. As of December 31, 2002, the Authority had drawn $314,916 from the construction loan; however, only eight of the 13 units were habitable, while the remaining five units were uninhabitable and in need of extensive rehabilitation work with no funding to complete the rehabilitation.

Our follow-up review further determined that the management of the Melpet Farms project ended on or about March 5, 2008, with the property being transferred to the Town of Dennis, under the exercise of the right of reverter. The Authority indicated that it is in litigation with the lender for nonpayment of the loan and for the conveyance of the property. This issue is further discussed in the Supplementary Information section of our report. In its response, the Authority indicated that the write-off of Melpet was approved by DHCD, with the approval of its fiscal year 2009 budget. However, we have verified through correspondence with DHCD that the write-off was not approved by DHCD.

Our review of the Authority's vacant unit turnaround time disclosed that because the Authority encountered excessive delays in preparing vacated apartments for occupancy, it may have lost the opportunity to earn approximately $6,653 in potential rental income. Specifically, it took the Authority an average of 112 days to prepare and fill the vacant units, well beyond the 21 days recommended by DHCD guidelines. There were 27 units with excessive vacancies during the audit period. In its response, the Authority indicated that there is no regulatory requirement by DHCD that units must be turned over in 21 days. However, DHCD's Property Maintenance Guide, which provides local housing authorities with specific guidance on refurbishing and reoccupying vacant units, states that "The average time to turn-around a vacant unit and execute a new lease is 21 days. Maintenance work is complete within 14 days of assignment." In addition, DHCD's Policy for Unit Turnover and Rent provides local housing authorities with the same 21-day timeframe for turning around vacant units.

Our review of the Authority's internal controls over furniture and equipment determined that the Authority was not in compliance with established inventory control procedures. Specifically, we found that, contrary to DHCD guidelines, the Authority did not (a) establish a subsidiary listing of its office equipment that includes the cost, date of purchase, and description of each individual asset and (b) could not document that an annual inventory had been conducted to provide support for equipment balances listed on its general ledger and financial statements. Since the Authority's subsidiary inventory listing was incomplete, the accuracy of the $153,325 furniture and equipment account balance reflected on the Authority's general ledger and financial statements is questionable. Moreover, there is inadequate assurance that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

In its response, the Authority indicated that a subsidiary listing of its office and inventory equipment existed and was provided. However, contrary to the Authority's assertion, the Authority did not demonstrate, during and subsequent to our fieldwork, through supporting documentation, that the Authority established and maintained a subsidiary listing of its office equipment that included the cost, date of purchase, and description of each piece of office equipment.

INTRODUCTION

Background

The Dennis Housing Authority manages 152 units of state-subsidized housing and 139 state- and federally funded housing certificates. The Authority also owned and operated 13 units of housing located at Melpet Farms on six acres of land deeded from the Town of Dennis in 2002 on which the Authority was required by restrictive covenant to develop affordable housing. The Authority obtained a $400,000 loan in 2002 to rehabilitate the existing Melpet Farms structures to make them suitable for affordable housing. The management of the Melpet Farms project ended on or about March 5, 2008, with the property being transferred to the Town of Dennis, under the exercise of the right of reverter. The Authority is currently facing legal issues in regard to the transfer of the property and the non-payment of the loan, as noted in the Supplementary Information section of our report.

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, 2006 to December 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.

- Accounts receivable procedures to ensure that rent collections were made in a timely manner and that uncollectible tenant accounts receivable balances were written off properly.

- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.

- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.

- 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 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.

- The Authority's progress in addressing the issues noted in our prior audit reports (No. 2003-0642-3A and No. 2006-0642-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 30-month period ended December 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested. Furthermore, our follow-up review determined that the Authority's financial position has improved but needs further improvement, as detailed in the Audit Results section of the report.

AUDIT RESULTS

1. STATUS OF PRIOR AUDIT RESULTS

Our prior audit reports (No. 2003-0642-3A and No. 2006-0642-3A) of the Dennis Housing Authority noted deficiencies in the Authority's (a) financial position and (b) management of its Melpet Farms rehabilitation project. Our follow-up review indicated that although the Authority has taken steps to address these issues, further action is required, as discussed below.

a. Financial Position

Our prior audit reports revealed that the Authority had experienced a steady decline in its financial position. Specifically, its operating reserves 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 its Melpet Farms rehabilitation project and not the Authority's day-to-day operations, and loans from the Modernization Fund were diverted to fund the rehabilitation work at Melpet Farms. In addition, the Authority had borrowed funds through a construction loan to perform rehabilitation work at Melpet Farms. The prior audits disclosed that this project had been mismanaged, was significantly incomplete, lacked sufficient funding for completion, and the Authority did not have the financial ability to repay the principal of the construction loan.

A summary of our follow-up on the Authority's financial position follows:

Melpet Farms Project

Our prior audit reports disclosed that the Authority had obtained a $400,000 construction loan that was to be used for the rehabilitation of Melpet Farms. 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, with the Authority paying only the monthly interest on the construction loan. The reports also noted that the Authority had loaned this project $41,000 from its Modernization Fund and that the Authority's Revolving Fund was absorbing the day-to-day costs associated with the Melpet Farms program. Audit report No. 2003-0642-3A disclosed that five of the project's 13 units were uninhabitable (two of those units were gutted, with only the shells of the units remaining). Our follow-up review disclosed that one additional unit had been rehabilitated, raising the total number of habitable units to nine.

Our follow-up review further determined that the management of the Melpet Farms project ended on or about March 5, 2008, with the property being transferred to the Town of Dennis, under the exercise of the right of reverter. Secondly, the Authority requested from DHCD a write off of $149,387 in advances and loans made to the Melpet Farms project. However, the request was denied. Lastly, the Authority is in litigation with the lender for nonpayment of the construction loan and the transfer of the property to the Town of Dennis. This issue is further discussed in the Supplementary Information section of our report.

DHCD Subsidy Overpayment

Our prior audit reports disclosed that the Authority's 400-1 Program balance sheet reflected a liability in an account titled "DHCD Subsidy Overpayment," with balances equaling $178,536 as of June 30, 2003, and $213,819 as of June 30, 2006, reflecting cumulative overpayments of the Authority's annual subsidy.

Our follow-up review determined that the Authority has repaid DHCD for subsidy overpayments.

Operating Reserves

Our prior audit reports disclosed that the Authority's operating reserves had been drawn below the minimum allowable level of $96,621 established by DHCD. Specifically, the Authority's operating reserve balance totaled $76,937 on June 30, 2006, below the minimum operating reserve for an Authority of its size.

Our follow-up review determined that the Authority's operating reserve account balance as of December 31, 2008 has further decreased to $15,831, below the DHCD-suggested minimum level of $72,000 set forth in the DHCD annual budget guidelines. Prudent business practice advocates that the Authority should have sufficient reserves to pay for any unforeseen expenses. Moreover, Section 14 of DHCD's Accounting Manual states, in part:

> *DHCD believes the one true indicator of the financial status of a management program is a correctly calculated operating reserve. Operating reserve is not just the combination of unrestricted and restricted net assets but is calculated by adding certain GAAP [Generally Accepted Accounting Principles] expenditures to the total of these two balances. . . . The purpose of the operating reserve is threefold. First, the operating reserve allows LHAs [Local Housing Authorities] to have funds necessary for cash flows. Some months more cash is paid out than is received and it is therefore necessary to have additional cash to*

meet these needs. Second, LHAs must have reserve funds to meet emergency situations such as major boiler or roof repairs that have not been anticipated in the budget. Third, the operating reserve is used to fund non-routine expenditures such as the replacement of refrigerators and ranges. DHCD has established full and minimum balances for operating reserves that act as benchmarks for LHAs to assess the relative value of their operating reserve balances. The problem in evaluating the operating reserve has always been the question of what is the true balance. The operating reserve actual balance is always some balance either positive or negative, but the true operating reserve balance requires an analysis of the balance sheet and an understanding of how balance sheet items affect operating reserve.

The Authority's operating reserves have dwindled because of the Authority's past mismanagement of its operating reserves and financial mismanagement and questionable decisions made by the Authority's previous Board of Directors and its former Executive Director.

Revolving Fund

Our prior audit reports disclosed that the Authority had used funds from its Revolving Fund to continue the rehabilitation of the Melpet Farms project and that significant amounts were owed to it from the Authority's other programs. Our prior audits also disclosed that Melpet Farms owed the Revolving Fund a total of $95,385.

Our follow-up review indicated that the Authority continued to use funds from its Revolving Fund for the operation of the Melpet Farms project up to June 30, 2008. As of June 30, 2008, the Melpet Farms project owed the Revolving Fund a total of $109,760. The Authority, in its annual operating budget proposal for the fiscal year ended June 30, 2008, requested a write off of the $109,760 in advances owed to the Revolving Fund. In a letter dated November 20, 2007 to the Authority's Executive Director, DHCD denied the request, stating, "The request to write-off the accounts receivable associated with Melpet has been denied and the exemption has been removed from the subsidy calculation." Nevertheless, on June 30, 2008, the Authority prepared accounting entries writing off the amount of $149,387 in collection losses, including $109,760 owed to the Revolving Fund from the Melpet Farms project.

Modernization Funds

The prior audits disclosed that the Authority had improperly loaned $41,000 from its Modernization Fund for rehabilitation work undertaken at Melpet Farms. Loans from the

Modernization Fund are advanced by DHCD after an application process and are awarded based on specific recognized needs of the Authority.

Our follow-up review determined that the Modernization Fund has not loaned any additional funding for rehabilitation work undertaken at Melpet Farms. The Authority, in its annual operating budget proposal for the fiscal year ended June 30, 2008, requested a write-off of the $41,000 loaned to the Melpet Farms project, which as previously mentioned, was denied by DHCD in a letter dated November 20, 2007.

Nevertheless, on June 30, 2008, the Authority prepared accounting entries writing off $149,387 in collection losses, including the $41,000 loaned to the Melpet Farms project from the Authority's modernization program.

b. Management of Melpet Farms Rehabilitation Project

The prior audits disclosed that the Authority had obtained a $400,000 construction loan in 2002 that was used for the rehabilitation of Melpet Farms and was paying only the monthly interest on the construction loan. The reports also noted that the Authority loaned the project $41,000 from its Modernization Fund and that the Authority's Revolving Fund was absorbing the day-to-day costs associated with the Melpet Farms program.

Our follow-up review further determined that the management of the Melpet Farms project ended on or about March 5, 2008, with the property being transferred to the Town of Dennis, under the exercise of the right of reverter.

However, we determined that the Authority has not made required monthly payments on its construction loan since July 18, 2007. The Authority indicated that it is in litigation with the lender for nonpayment of the loan and for the conveyance of the property. This issue is further discussed in the Supplementary Information section of our report.

Recommendation

The Authority should prepare adjusting journal entries reversing the write-off of $149,387 in collection losses and again seek approval from DHCD to write-off this amount. In addition, the Authority should adhere to DHCD's policies and procedures to ensure that it has adequate operating reserve funds available for any unforeseen occurrences. Lastly, the Authority's Board of Directors should take a more active role in providing oversight over the administrative and financial controls of the Authority's operations.

Auditee's Response

> *Melpet Farms Project: DHCD has provided documentation to substantiate the write off of Melpet in the amount of $149,387 with approval of the FY 09 Budget. The original request in FY 08 was denied (letter dated 11/20/07) but then approved in FY 09. (Letter submitted with budget date 10/21/08 requesting approval for write-off, Budget approval from DHCD dated 12/24/08). Furthermore we believe that Generally Accepted Accounting Principles (GAAP) require us to recognize a loss from the transaction that resulted from the Town's election to exercise its right of reversion and take the Melpet property back. This act precipitated finality to the fact that the DHA, had in the past, misused State funds and left Melpet owing money to other programs and accounts of the DHA that could not and would not ever be repaid. This indisputable fact is the basis of the entries recognizing the loss.*
>
> *Whether or not the accounts receivable balances were left on the books or removed, a loss had to be recognized. The DHA and Fee accountants chose to remove the receivables and record a collection loss. The only alternative would have been to create an allowance for doubtful accounts equal to the receivables balance and record a corresponding collection loss. Unlike the write off of tenant account receivable balances where it is DHCD policy for an authority to request permission from DHCD to write off balances deemed to be uncollectible, there is no such policy related to other losses, such as casualty losses, fires, floods, etc.*

Auditor's Reply

The Authority, upon request, could not and/or did not provide us with supporting documentation to prove that authorization was granted by DHCD to write-off $149,387 in collection losses, consisting of funds owed to the Revolving Fund and the Authority's Modernization Fund, from the Melpet Farms project. We have verified through correspondence with DHCD on March 25, 2010, that the write-off was, in fact, not approved for its fiscal year ended June 30, 2008 and June 30, 2009 operating budgets.

Auditee's Response

> *Operating Reserves: The DHA operating reserves obviously decreased with the write-off of $149,387 for the Melpet project which again was approved by DHCD within the budget. The auditor's recommendation to "adhere to DHCD's policies and procedures to ensure that it has adequate operating reserve funds available . . ." To have not recognized on the books the loss that Melpet was would have been grossly misleading to anyone reading the financial statements, including DHCD. It was the intent and purpose of the entries to present the true situation so that DHCD could more effectively ensure that adequate operating reserve funds were made available.*
>
> *It was a result of recognizing the loss clearly and completely that allowed DHCD to see the operating reserves for what they truly were and subsequently approve a budget that*

provided for the subsidy that was necessary to restore the DHA development to what DHCD currently considers a minimum level of reserve adequacy.

Auditor's Reply

As previously stated, contrary to the Authority's assertion, DHCD did not approve the write-off of $149,387 for the Melpet project.

2. IMPROVEMENTS NEEDED IN VACANCY TURNAROUND TIME

Our review of the Authority's vacant unit turnaround time disclosed that, because the Authority had excessive delays in preparing vacated apartments for occupancy for its elderly housing program, it may have lost the opportunity to earn approximately $6,653 in potential rental income. Specifically, it took the Authority an average of 112 days to prepare and fill the vacant units, well beyond the 21 days recommended by DHCD guidelines. There were 27 units with excessive vacancies during the audit period. Details of the vacancies are as follows:

Period	No. of Units	Total Days Vacant	Days in Excess of DHCD Guidelines	Loss of Potential Rental Income
July 1, 2007 to June 30, 2008	16	1,676	1,300	$5,560
July 1, 2008 – December 31, 2008	11	669	402	1,093
Total	27	2,345	1,702	$6,653

DHCD's Property Maintenance Guide, Chapter 1, states, in part:

One primary responsibility of your LHA is to reoccupy vacancies as fast as possible. Every day a unit is vacant is a day of rent lost. Vacancies also invite vandalism and signal trouble if they linger. It is particularly important, therefore, to have vacancy refurbishment as a high priority in the assignment of work to your staff. Since this work does not have an "advocate" (e.g. an occupant asking for the work to be done), it can be easy to abandon work in progress on a vacancy when other residents make maintenance requests. This must be resisted. One of the ways to do this is to have someone on your LHA staff be the insistent voice reminding everyone of the importance of completing the vacancy work.

DHCD believes that the maintenance portion of the vacancy process should not take more than 14 days and that 21 days should be a good target for an average turnaround time.

The Executive Director cited the following reasons for the excessive vacancies:

- Multiple units were vacant within the same time period.
- Many units were in poor condition.
- Maintenance staffing issues, including turnover in staff, resulted in disruptive ongoing maintenance and delays in rehabbing the units.
- There were insufficient funds to prepare these units for occupancy.

The Authority's noncompliance with DHCD's 21-day unit turnaround timeframe resulted in the delay of housing for the 39 applicants on the Authority's waiting list. Moreover, the loss of potential rental income had contributed to the Authority's insufficient operating reserves balance. Also, postponing the necessary improvements could result in greater costs at a future date and the failure of properties to conform to minimum standards for safe, decent, and sanitary housing.

Recommendation

As rental income is the primary revenue source for the Authority, it should implement procedures to ensure that all vacant units are occupied within DHCD's 21-day timeframe to provide housing to eligible applicants in a timely manner and maximize its rental income.

Auditee's Response

> *<u>Vacancy Controls</u>: There is no regulatory requirements that you must turn units over in 21 days. It is in the DHCD property maintenance guide as a "recommendation." DHCD only requires permission (waiver) for units off line over 60 days. If you were to extrapolate lost rent due to slow unit turnover it would only start after 60 days. Having said this, the DHA never had any units vacant without a waiver for over 60 days. The audit clearly is providing misleading information in its report. There were reasons for minor delays as noted in the report, but none to this extent. It is also incorrectly stated in the report to say that it resulted in denial of applicants from the wait list as this did not happen. The DHA had specific units off-line during this time period (with DHCD waivers) for such issues as installing new ventilation in bathrooms when units turned over, installation of drainage and rehabilitation of kitchens in scattered sites as well as modernization work. Waivers had been requested and received from DHCD on all units that exceeded 60 days. Funding and guidance for many of these projects was provided through DHCD. Documentation was provided during the audit but obviously not taken into consideration. DHCD also provided written documentation during the audit period as well but again not considered. The audit is clearly misguided to say "they may have lost*

the opportunity to earn potential rental income" when DHA accounting ledgers clearly show an increase in rental income throughout this period of time.

Auditor's Reply

DHCD's Property Maintenance Guide, which provides local housing authorities with specific guidance on refurbishing and reoccupying vacant units, states, "The average time to turn-around a vacant unit and execute a new lease is 21 days. Maintenance work is complete within 14 days of assignment." Moreover, the Guide emphasizes that every day a unit is vacant is a day of lost rent.

In addition, DHCD's Policy for Unit Turnover and Rent provides local housing authorities with the same 21-day timeframe for turning around vacant units as follows:

> *DHCD believes that a reasonable outside time limit for turning around vacancies is 21 days where notice has been given . . . Where units are out of service exceeding 21 working days all rent up efforts will need to be properly documented and in your vacancy ledger (and rent up records).*

In addition, the Policy for Unit Turnover and Rent specifies that a reduction in subsidy for lost rent may be imposed for units that are not rented within the 21-day timeframe.

Clearly, these two documents establish a 21-day timeframe for local housing authorities to refurbish and reoccupy vacant units. Accordingly, our calculation of the Authority's lost potential rental income was based upon the turnaround time established by DHCD.

3. INADEQUATE INVENTORY CONTROLS

Our review of the Authority's internal controls over furniture and equipment determined that the Authority was not in compliance with established inventory control procedures. Specifically, we found that, contrary to DHCD guidelines, the Authority did not establish and maintain a subsidiary listing of its office equipment that includes the cost, date of purchase, and description of each individual asset. Moreover, the Authority could not document that an annual inventory had been conducted to provide support for equipment balances listed on its general ledger and financial statements.

The Authority's financial statements and general ledgers as of June 30, 2008 for its 400-1 program indicated that office equipment accounted for $123,815 (80%) of the total furniture and equipment account balance of $153,325.

DHCD's Accounting Manual for State-Aided Housing Programs, Section 15D, requires the following inventory procedures:

- Furniture and equipment record cards or a computerized list should be established and maintained.
- A physical inventory of all furniture and nonexpendable equipment inventory must be taken each year.
- Once the inventory value is established, an accounting entry should be prepared for the Authority's financial records.

Because the Authority's subsidiary inventory listing was incomplete, the accuracy of the $153,325 value reflected on its general ledger and financial statements is questionable. As a result, there is inadequate assurance that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

The Executive Director stated that a detailed subsidiary listing of office equipment was not established prior to her employment in September 2006 but that an effort would be made to establish a complete and accurate subsidiary listing that would include the cost and date of office equipment.

Recommendation

The Authority should ensure that its inventory control procedures are in full compliance with DHCD requirements by:

- Establishing a comprehensive inventory listing that includes the cost, purchase date, and description of the individual asset;
- Conducting an annual inventory to verify the existence and condition of its furniture and equipment; and
- Reconciling the results of the annual inventory to its financial records.

Auditee's Response

> *Inventory Controls: Subsidiary listing of its office and inventory equipment was provided upon the audit arrival and informed that the DHA was in the process annual updates as well as inputting to computer excel format. To say that a subsidiary listing of inventory did not exist is incorrect. Prior to Sept. 2006 it was stated that the listing was not updated and since that time updates have been made on an annual basis and upon arrival of the auditors the DHA was in the process of inputting this data in a computer version, which was completed during this audit period. Once again the auditors misinformed this process into it not existing which is totally inaccurate. The DHA has and continues to have a listing of inventory which was all provided during the audit period.*

Auditor's Reply

Contrary to the Authority's assertion, the Authority did not demonstrate, during and subsequent to our fieldwork, through supporting documentation, that it established and maintained a subsidiary listing of its office equipment, amounting to $123,815 that included the cost, date of purchase, and description of each piece of office equipment.

SUPPLEMENTARY INFORMATION

Pending Litigation

The Dennis Housing Authority is a defendant in litigation for default under the terms and conditions of the promissory note and loan agreement pursuant to the rehabilitation of Melpet Farms.

In a complaint filed by the Plaintiff, Faneuil Investors Group, dated October 9, 2008, the following information was disclosed, in part:

1. The Town of Dennis and the Authority entered into an agreement in 2002 whereby the town acquired the Melpet Farms property by eminent domain. The town conveyed the property to the Authority to develop and construct low-income housing. On March 4, 2002, the Authority obtained a $400,000 mortgage from Citizens Bank of Massachusetts for the acquisition and construction of an affordable housing development.
2. On or about March 5, 2008, the Authority executed a deed purporting to convey Melpet Farms property back to the town. On April 24, 2008, the lender commenced legal action against the town and the Authority seeking a declaratory judgment pursuant to Chapter 231A, Section 1, of the Massachusetts General Laws that the exercise of the right of reverter by the town was invalid. The complaint also stated that the conveyance of the property without the consent of the plaintiff or its assignor is a violation of the due on sales clause contained in the mortgage conveyed by the Authority to the lender.
3. The Authority was advanced the sum of $296,178 of the loan and has failed to make monthly installment payments to the lender under the promissory note since July 18, 2007. The complaint filed also disclosed the following amounts due the lender from the Authority:

Principal Amount Advance	$296,178
Accrued Interest	41,486
Late Fees	3,614
Other Miscellaneous Expenses	5,027
Attorney Fees to Date	7,161
Total	$353,466

As of June 8, 2009, the ultimate outcome of the litigation had not been determined.