



# The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
LUDLOW HOUSING AUTHORITY  
JULY 1, 2005 TO FEBRUARY 29, 2008**

**OFFICIAL AUDIT  
REPORT  
JULY 23, 2009**

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### INTRODUCTION

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Ludlow Housing Authority for the period July 1, 2005 to February 29, 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. 2006-0697-3A and No. 2005-0697-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 32-month period ended February 29, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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### AUDIT RESULTS

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#### 1. PRIOR AUDIT RESULTS RESOLVED

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##### Accrued Sick Leave Benefits to Former Executive Director

Our prior audit report No. 2005-0697-3A found that the Authority's former Executive Director upon her retirement received accrued sick leave benefits totaling \$1,101.41 in excess of what was earned. Our follow-up review showed that the Authority had conducted a review of this sick leave accrual payment. In order to resolve this matter, the Authority's board approved the former Executive Director's working without pay for a total of 54.65 hours during the period July 26, 2004 through October 10, 2004.

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#### 2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

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Our prior audit No. 2006-0697-3A disclosed that certain areas were in need of improvement, including (a) noncompliance with Chapter II of the State Sanitary Code and (b) modernization initiatives that were not funded. Our follow-up review indicated that although the Authority has made progress in addressing these issues, they had not been fully resolved, as discussed below.

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##### a. Compliance with State Sanitary Code

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Our prior audit reported that deficiencies involving noncompliance with Chapter II of the State Sanitary Code were found in 10 of the 166 state-aided housing units we inspected as part of our audit, including peeling paint, a leaky roof, exposed asbestos, sidewalks in poor condition, poorly insulated windows that cannot be locked, cracks and holes in ceilings and walls, and evidence of black mold. During our follow-up review, we found that these issues have been partially resolved. Specifically, the leaking roof, water-damaged ceilings, and peeling paint at Meadow Street, cracked sidewalks and front entrance windows at Chestnut Street, main doorways at Wilson Street, and water damage at Benton Street have been repaired, and although the missing and broken screens at

Benton Street had been replaced or repaired, the tenants continue to remove or damage the screens. In addition, we noted that the Department of Housing and Community Development (DHCD) has taken off line the Maple Street property, where many of the deficiencies (e.g., mold, asbestos) occurred. However, we noted that the leaking roof and water-damaged ceiling issues at the Chestnut Street property remain unresolved.

#### **b. Modernization Initiatives**

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Our prior audit noted that, in response to our questionnaires, the Authority stated there is a need for modernizing its managed properties. Our follow-up review disclosed that the Authority closed out three modernization projects, including window replacements and installation of a ventilation system at Chestnut Street and roof, ceiling, and chimney repairs at State Street. Moreover, the Authority has three modernization projects in progress at State Street and Wilson Street and has received emergency funding for boiler repairs. Nevertheless, the Authority should continue to seek funding from DHCD for roof renovations on Chestnut Street and for the repair of the Maple Street property so that urgently needed housing can become available to those waiting to be housed.

### **3. PRIOR AUDIT RESULTS UNRESOLVED**

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Our prior audit report No. 2005-0697-3A noted issues regarding (a) post-retirement pensions, (b) questionable accrued sick leave benefits, and (c) the tenant application process. Our follow-up review revealed that these issues have not been adequately addressed and remain unresolved, as discussed below.

#### **a. Post-Retirement Employment and Income of Former Executive Director Exceeds the Limits Allowed by State Retirement Law**

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Our prior audit report disclosed that the Authority's former Executive Director retired on December 31, 2003, receiving a pension from the Hampden County Board of Retirement (HCBR) while continuing to draw a salary as the Authority's Interim Executive Director. It was determined that her combined income exceeded by \$6,730 the earning limits allowed by the state's retirement law (Chapter 32, Section 91(b), of the General Laws). In response to our prior report, the Authority stated that it would follow our recommendation to review the propriety of the post-retirement income received by the former Executive Director and that it would take steps to ensure that such issues do not arise again in the future. In addition, we noted that the Authority's August 2005 board meeting minutes stated that the board would forward our recommendations from the prior audit report to DHCD. However, our follow-up review showed that, contrary to our prior recommendation, the Authority had not appropriately consulted with DHCD or the HCBR on this issue. In response, the Authority stated it would take steps to resolve this matter.

#### **b. Extra Hours Worked on Modernization Programs Not Documented**

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Our prior audit report found that the Authority's former Executive Director was paid \$4,600 for extra work on modernization programs without evidence of extra hours actually worked. The former Executive Director asserted that she worked five years and eight years, respectively, on two modernization projects. Contrary to DHCD

regulations, this extra payment was used in the calculation of the former Executive Director's retirement benefits. We recommended that the Authority have DHCD and HCBR review the propriety of the payments and that the Authority seek reimbursement if it was determined that the payments were made improperly. Our follow-up review determined that the Authority has not taken the necessary action to resolve this issue. Specifically, the Authority has not demonstrated through supporting documentation how \$4,600 in extra compensation was calculated, including details to support how many hours and on what days the former Executive Director accrued time to substantiate requests for "extra pay."

### **c. Improvements Needed in Tenant Application Process**

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Our prior review of the Authority's tenant application process revealed that, contrary to DHCD requirements, the Authority did not consider incomplete applications, did not assign control numbers to all applicants, and did not notify all applicants of their rights. Our follow-up review of the Authority's tenant selection process and related records showed that various improvements were still needed. We noted the following conditions during our review: 163 of 395 applicants did not have their eligibility status posted in the master ledger; 12 applicants were housed, but their offer and acceptance columns in the waiting list were blank; 55 applicants were determined eligible for the waiting list, but then were removed from the waiting list due to lack of reasonable information to process their applications; 40 applicants' priority and preference postings in the master ledger were not in agreement with the same information in the waiting list; and new control numbers were issued if an applicant's priority or preference changed. In response to this issue, the Authority indicated that it has reviewed our recommendations and has consulted with DHCD to ensure that the wait list ledger and waiting list are completed and being maintained accurately.

## **4. DELAYS IN FILLING VACANCIES, AND IMPROVEMENTS NEEDED IN MAINTAINING THE VACANCY LEDGER**

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Our review showed that the Authority experienced delays in filling vacant units and that the vacancy ledger was not being maintained properly. Specifically, we noted that the Authority had delays in filling 21 of 62 housing units that became vacant during our audit period, resulting in delayed housing for those in need and the lost opportunity to earn potential rental income. The 21 units included seven of eight project 705 family units and 14 of 54 project 667 elderly units that became vacant during the audit period. Additionally, we found that the Authority's vacancy ledger did not always document the reasons for these delays, and that vacancy dates, dates units were ready, and control numbers of new tenants were not always posted. In response, the Authority stated that it would make every effort to comply with DHCD regulations to ensure that vacant units are ready to be occupied within the 21-day turnaround time, pending emergencies that may arise in the normal workday.

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**5. MANAGEMENT PLAN NEEDS UPDATING** **15**


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Our review of the Authority’s Management Plan, which was created in 1987 and revised in 1994, showed that although the plan had the necessary components (e.g., organization, personnel policies, job descriptions, DHCD regulations), there was no indication that it had been adequately updated since 1994. In fact, we noted that the plan included outdated DHCD regulations. Regular updates and documentation thereof is important in order to reflect changes in the Authority’s policies, procedures, and scope of operations. Moreover, an updated and complete Management Plan is the basis for establishing and maintaining the systems necessary for the proper administration of public housing, as well as implementing a system of internal control and ensuring compliance with DHCD’s internal control requirements. In response to this issue, the Authority’s Executive Director indicated that she will continue her efforts to update the Authority’s Management Plan and to ensure that all updates are initialed and dated as time permits.

**6. IMPROVEMENTS NEEDED IN THE PILOT AGREEMENT PROCESS, AND PAYMENTS FOR 705 PROJECT NEED TO BE REVIEWED** **16**


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We noted that the Town of Ludlow was billing the Authority for Payment in Lieu of Taxes (PILOT) using a formula different than that which was agreed upon in the original 1980 PILOT agreement signed by the town and the Authority. Additionally, the formula in this agreement also varied from DHCD’s fiscal years 2007 and 2008 Budget Guidelines formula. As a result, for fiscal years 2007 and 2008 the Authority made PILOT payments to the town totaling \$37,761, instead of the \$10,146 owed according to the agreement. This resulted in an apparent \$27,615 overpayment by the Authority. Additionally, the original PILOT agreement stated that the amount to be paid by the Authority shall not exceed the amount determined by the formula in the agreement. In response to this issue, the Authority stated that it would discuss a new PILOT agreement with the Town for its upcoming 689 project and that the Authority will revisit the existing PILOT agreement for its 705 properties and a December 7, 1990 final decision by the Massachusetts Department of Revenue regarding the PILOT agreement between the Town of Ludlow and the Authority.

**7. QUESTIONABLE USAGE OF MODERNIZATION FUNDS** **18**


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Our review of Authority expenditures revealed that modernization funds were used to fund two bonuses for the Executive Director totaling \$3,500 and to reimburse the administrative fund account for some prior purchases of computer-related items totaling \$2,581, as discussed below.

**a. Executive Director Bonuses** **18**


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Minutes of board meetings for July 2006 and May 2007 showed that the board voted to approve two bonuses for the Executive Director using modernization funds; one bonus was for \$1,000 while the other was for \$2,500. These minutes indicated that the bonuses were based on a DHCD guideline. However, we found that this “DHCD guideline” was actually a faxed copy of one page from a multi-page memorandum from an DHCD

official dated April 10, 1987 in regard to authorities with projects in development. The Authority did not have any projects in development. In response to this issue, the Authority indicated that it has reviewed the propriety of the bonus payment and has concluded that payments made to the Executive Director were allowable under the April 10, 1987 memorandum. However, the memorandum the Authority refers to clearly does not reference bonuses as being an appropriate and acceptable use for modernization funds or contain definitive language that supports the Authority's claim that modernization bonuses were or should have been considered part of a development budget. Without further definitive supporting documentation, the Executive Director's bonuses are still considered questionable.

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**b. Computer-Related Purchases**

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In August 2006, the Authority requested reimbursement of \$1,500 from Modernization Work Plan No. 1009 to pay for various computer hardware and software items. However, our review of supporting documents showed that these items were actually purchased approximately 1½ years prior to the reimbursement request filed by the Authority. The items were paid from the Authority's administrative fund account in February and May 2005, and were subsequently booked to the Project-400 management account. Additionally, in November 2006, purchases were made for a \$770 computer and two \$190 19" LCD monitors that were paid from the administrative fund and booked to the Project-400 management office supplies account. Approximately six months later the Authority requested reimbursement from Modernization Work Plan No. 1008 funds to pay for these expenses even though they were already paid for. We question the approval and use of modernization funds for these expenditures, since the computer-related equipment was already paid for from administrative funds in a prior period and approval from DHCD to use modernization funds for this equipment was received after the items were purchased. In response to this issue, the Authority stated that it would ensure that all payments from modernization funds are within regulations, supporting documents related to expenditures are current, and that expenditures are relative to modernization needs. However, we note that the purchases of computer equipment were accomplished through the Authority's operational budget. These administrative operating expenses were identified at the time to support and be utilized within the entire Authority operation. The retroactive application of administrative costs is questionable and is not consistent with the related modernization projects completed. Accordingly, DHCD should review this matter and make appropriate adjustments and actions to ensure that proper accounting is made and that there was no misuse of funds.

## INTRODUCTION

### *Audit Scope, Objectives, and Methodology*

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Ludlow Housing Authority for the period July 1, 2005 to February 29, 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.

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 timely and that uncollectible tenant accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Property and equipment inventory control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD regulations
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.

- Cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD 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.
- Modernization awards to verify that contracts were awarded properly and funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior audit reports (No. 2006-0697-3A and No. 2005-0697-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 32-month period ended February 29, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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**AUDIT RESULTS****1. PRIOR AUDIT RESULTS RESOLVED****Accrued Sick Leave Benefits to Former Executive Director**

Our prior audit report No. 2005-0697-3A, which covered the period October 1, 2002 to December 31, 2004, found that the Ludlow Housing Authority's former Executive Director upon her retirement received accrued sick leave benefits totaling \$1,101.41 in excess of what was earned. The former Executive Director requested that the Authority's board authorize a lump-sum payment of \$7,550 as compensation for unused sick and vacation leave; however, we found calculation errors were made in computing the sick leave portion. The board paid the bill as submitted without first verifying whether it was adequately documented and accurate. In response to our prior audit, the Authority stated that it would review the propriety of the questionable accrued sick leave benefits paid to the former Executive Director to determine whether repayment should be sought.

Our follow-up review showed that the Authority conducted a review of this sick leave accrual payment, and in July 2004, the former Executive Director and the Authority's Fee Accountant determined that an error had been made in the calculation of sick time paid out to the former Executive Director. In order to resolve this matter, the former Executive Director requested approval from the board to work a total of 54.65 hours without pay beginning with the week ending July 31, 2004 to satisfy this overpayment. The former Executive Director worked for a total of 54.65 hours during the period July 26, 2004 through October 10, 2004, as noted within the payroll records of the Authority.

**2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED**

Our prior audit No. 2006-0697-3A of the Ludlow Housing Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that certain areas were in need of improvement, including (a) noncompliance with the State Sanitary Code and (b) modernization initiatives that were not funded. Our follow-up review revealed that the Authority has taken action to address these two issues, as discussed below:

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**a. Compliance with State Sanitary Code**

During our prior audit, we conducted inspections of 10 of the 166 state-aided dwelling units managed by the Authority and found 24 instances of noncompliance with Chapter II of the State Sanitary Code, including black mold, leaking roofs, water-damaged ceilings, exposed asbestos, sidewalks in poor condition, poorly insulated windows that cannot be locked, peeling paint, cracks and holes in walls and ceilings, and other health and safety hazards.

During our follow-up review we found that the Authority had repaired the leaking roof, water-damaged ceilings, and peeling paint at the Meadow Street property, and that the cracked sidewalk and front entrance windows at the Chestnut Street property had been replaced. The Authority also repaired the main doorways at the Wilson Street property and the water damage at the Benton Street property. We also noted that the missing and broken screens at Benton Street had been replaced or repaired; however, this issue is an ongoing problem as tenants continue to remove or damage these screens.

We also noted that the leaking roof and water-stained ceilings at the Chestnut Street property have not been resolved. Authority officials stated that attempts to repair the roof had been made but the leaks have continued. Contractors informed the Authority that either a complete resurfacing of the roof deck or a newly built roof with a different pitch was needed. The Authority also indicated that maintenance staff have attempted to repair the water-stained ceiling in Unit 201; however, the leaking roof continues to deteriorate in spite of these temporary measures by the Authority's staff.

In response to the 11 instances of noncompliance noted at the Maple Street property, including black mold and exposed asbestos, the Department of Housing and Community Development (DHCD) has taken this unit off line. The Authority stated that it is awaiting action from DHCD for final disposition of this unit. The Authority's Asset Manager accompanied us during our site inspections of the Chestnut Street and Maple Street properties. The Asset Manager stated that the conditions at these units would be reported back to DHCD, and that a determination would be made on funding to improve these conditions.

**b. Modernization Initiatives**

Our prior audit noted that, in response to our questionnaires, the Authority stated that there is a need for modernizing its managed properties.

Our follow-up review indicated that the Authority had closed out three modernization projects, including window replacements and installation of a ventilation system at the Chestnut Street property, and roof, ceiling, and chimney repairs at the State Street property. The Authority also had three modernization projects in progress at its State Street and Wilson Street properties, and has received emergency funding for boiler repairs. The Authority is still in need of funding for roof renovations at Chestnut Street and for the demolition or repair of the Maple Street property.

***Recommendation***

The Authority should continue to appeal for funding from DHCD, and should follow up on the status of the Asset Manager's report in order to resolve the issues at the Chestnut Street and Maple Street properties. Moreover, DHCD should provide sufficient funds to the Authority in a timely manner so that it may provide safe, decent, and sanitary housing for its tenants. DHCD needs to provide adequate funding, as taking units off line is not a solution to the shortage of housing for those in need.

***Auditee's Response***

*The Ludlow Housing Authority will continue to appeal for funding from DHCD and follow-up on the status of the Asset Manager's report in order to resolve the issues of the units at Chestnut Street and Maple Street. The Ludlow Housing Authority hopes that DHCD will provide sufficient funds to the Authority in a timely manner so that it may provide safe, decent, and sanitary housing for its tenants.*

*On eleven (11) separate occasions during the audit period between July 1, 2005 to February 29, 2008, the Ludlow Housing Authority Maintenance Department responded to leaks within Unit #201. Each time, the roof was patched, the unit was cleaned. On two (2) separate occasions, the LHA maintenance staff performed remediation for mold and painted the unit to include the ceiling. On four separate occasions, an outside contractor was called in to repair the roof above the elevator shaft at a cost of \$10,475.00 from the LHA Operating Budget. Although financial assistance has been requested by the Department of Housing & Community Development on a continual basis, the Ludlow Housing Authority had been informed that no money was available to repair or replace the roof. Finally, on February 4, 2008 and again on June 3, 2008, a plea from the Housing Authority to the Department of Housing & Community Development yielded a grant award by the Emergency Committee on June 4, 2008 in the amount of \$182,000. A Contract for Financial Assistance has been signed between the Commonwealth and the*

*Ludlow Housing Authority dated August 22, 2008. The Ludlow Housing Authority will coordinate the repair of the roof atop the apartment units with the Town of Ludlow who will be responsible for the cost of the areas of the roof over the Senior Center and Theater portions of the roof. As the roof cannot be repaired until the spring of 2009 because we are going into the winter months, for the time being, the maintenance staff will attempt to seal the roof over the elevator shaft to prevent leaks until the spring. The Ludlow Housing Authority Executive Director and Maintenance Department have worked diligently to resolve the issues of leaks and water stains for the past four years. The Department of Housing & Community Development has agreed that the roof requires replacement through Emergency Funding. The Ludlow Housing Authority will work with the Town of Ludlow to coordinate replacement of the roof at the Chestnut Street Building for replacement beginning spring of 2009.*

*The Maple Street property has been taken off-line by the Department of Housing & Community Development. The Ludlow Housing Authority has expended \$15,500 in the past four years to keep this vacant unit in its portfolio due to PILOT to the Town of Ludlow, utilities and projected lost revenue. The home is in need of mold abatement, asbestos abatement, a new electrical system, new kitchen, plaster walls require demolition, the brick foundation requires re-pointing or replacement, water heater requires replacement, concrete steps require replacement, driveway requires replacement. The Department of Housing & Community Development Construction Advisor has estimated a cost of \$40,000 to ensure code compliance only. On two separate occasions, the Executive Director of the Ludlow Housing Authority has solicited quotes by outside contractors for the rehabilitation of this property. The Ludlow Housing Authority has requested Emergency Funding from the Department of Housing & Community Development on two separate occasions to provide rehabilitation to this 4-bedroom home. On August 6, 2008, the Department of Housing & Community Development provided funding in the amount of \$10,000 for a Planning Grant through a House Doctor Program to determine the scope and budget of required repairs in order to bring this home back on line to occupancy standards. However, neither the Executive Director nor the Board of Commissioners of the Ludlow Housing Authority have control over when or if the Department of Housing & Community Development funds the rehabilitation of this property.*

### **Auditor's Reply**

We recognize the Authority's efforts to address the need for safe, decent, and sanitary housing for its tenants, and we appreciate the Authority's update regarding DHCD providing the Authority with vital funding to address the crucial issue noted in our previous audit reports.

### **3. PRIOR AUDIT RESULTS UNRESOLVED**

Our prior audit report No. 2005-0697-3A noted issues regarding (a) post-retirement compensation, (b) questionable accrued sick leave benefits, and (c) the tenant application process. Our follow-up review revealed that these issues still have not been adequately addressed and remain unresolved, as discussed below:

**a. Post-Retirement Employment and Income of Former Executive Director Exceeds the Limits Allowed by State Retirement Law**

Our prior audit report disclosed that the Authority's former Executive Director retired on December 31, 2003, receiving a pension from the Hampden County Board of Retirement (HCBR) while continuing to draw a salary as the Authority's Interim Executive Director. Her income from the service exceeded by \$6,730 the earning limits allowed by the state's retirement law (Chapter 32, Section 91[b] of the General Laws, "Payment of Pensioners for Services after Retirement"), which states, "the earnings... when added to any pension or retirement allowance ... do not exceed the salary that is being paid for the position from which he retired . . . ." Accordingly, the former Executive Director should not have been compensated beyond that limit. Moreover, Section 91(c) of the statute requires every such retiree so employed to certify to his employer the number of days or hours he was employed during a calendar year and the earnings gained therefrom. If the earnings exceed the amount allowable, the retiree must return to the employer all excess earnings. The amount of any excess not so returned may be recovered in an action of contract by the employer.

In response to our prior report, the Authority stated that it would follow our recommendation that DHCD and HCBR review the propriety of the post-retirement income received by the former Executive Director, and that it would consult with DHCD regarding the issues at hand to take steps to ensure that such issues do not arise again in the future. In addition, we noted that the Authority's August 2005 board meeting minutes stated that the board would forward our recommendations from the prior audit report to DHCD.

Our follow-up review showed that the Authority had not appropriately consulted with DHCD or HCBR on this issue. In this regard, the Public Employee Retirement Administration Commission (PERAC) has issued guidance to all retirement boards in the Commonwealth in its Memorandum #24, dated July 2, 2008. The memorandum clearly reaffirms the statute cited and further states that the court has ruled that if the employer does not seek or receive the reimbursement from the retiree, the Retirement Board that paid the excess compensation on behalf of the agency responsible for the payments.

**Recommendation**

The Authority, DHCD, and the HCBR should review the propriety of the post-retirement income received by the former Executive Director and seek reimbursement for all payments deemed to be improper.

**Auditee's Response**

*The Ludlow Housing Authority has corresponded with the Hampden County Retirement Board (HCRB) regarding retirement contributions withheld and what compensation is not subject to retirement withholding. Post Exit Audit Meeting, it is clear that the LHA should contact the HCRB regarding the earning limits allowed by the state's retirement law. The question at hand is whether or not the former Executive Director's income from the service exceeded the earning limits allowed by retirement law. The Ludlow Housing Authority will correspond with the HCRB and DHCD so that the appropriate entities can determine an appropriate resolution.*

**Auditor's Reply**

We concur that the Authority should correspond with HCBR. However, this action is long overdue and should have occurred in response to our prior audit report when the Authority stated that was their intention at that time. Post-retirement income is clearly addressed in Chapter 32, Section 91 (b), of the General Laws. Adherence to this provision is the fiduciary responsibility of the Authority as an employer, as well as an obligation of the employee. We reiterate that it is the obligation of the Authority, as the employer, to recover this overpayment made to the former Executive Director to recover the overpayments made to the former Executive Director in accordance with the law. Also, in accordance with its oversight and monitoring role, DHCD should assist the Authority and ensure that these funds are recovered.

**b. Extra Hours Worked on Modernization Programs Not Documented**

Our prior audit report found that the Authority's former Executive Director was paid \$4,600 for extra work on modernization programs without evidence of extra hours worked. The former Executive Director asserted that she worked five years and eight years, respectively, on two modernization projects. Contrary to DHCD regulations, this extra payment was used in the calculation of the former Executive Director's retirement benefits. Authority records indicated that the former Executive Director did not document the extra hours worked on these modernization programs. Our prior report recommended that the Authority should have DHCD and HCBR review the propriety of the payments and seek reimbursement if it was determined that the payments were made improperly.

Our follow-up review determined that the Authority has not taken the necessary action to resolve this issue. Specifically, the Authority had not consulted with DHCD or HCBR. Minutes of Board meetings, August 2005, state that the Board would forward recommendations from our prior audit report to DHCD. The current Executive Director stated in an interview on April 8, 2008 that the Authority's Board concluded that reporting our prior audit report's recommendations to DHCD would result in stronger action or response than if the Board contacted DHCD. The Executive Director also stated that, besides what was written in the minutes, there would not be any evidence of correspondence with DHCD or HCBR.

### ***Recommendation***

It is the responsibility of the Authority to resolve these issues. Failing that, DHCD should take action to ensure that the Authority acts responsibly and fulfills its statutory obligations.

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

*Per Memorandum dated April 10, 1987 from the Executive Office of Communities & Development regarding Administrative Fee for Modernization and Development Projects, the Authority offers the following. Under Executive Office of Communities & Development Guidelines, in recognition of the administrative tasks associated with modernization efforts, the Bureau of Housing Modernization will review requests for administrative compensation under the Phase II awards made in accordance with the Guidelines for Grants of Modernization Funds and the Total Amount Allowed for Administrative Support. Under these Guidelines, for Grants of Modernization Funds, a modernization plan between \$100,001-\$500,000, the total amount allowed for administrative support could be between 4.5% or \$6,000 (whichever is more). Accordingly, the former Executive Director was paid a total of [\$4,600] under this guideline. The Ludlow Housing Authority Board of Commissioners has previously responded to the finding of the State Auditor's Office by providing the following information on July 8, 2005.*

*"The Recommendation made to the Ludlow Housing Authority is and has been in place; all expenses for "allowability" and accuracy before payment were followed and adhered to according to State guidelines/regulations. . . .*

*The Ludlow Housing Authority paid the former Executive Director \$4,600 for extra work on modernization programs based on approval by DHCD (Department of Housing & Community Development) and the Ludlow Housing Authority Board of Commissioners."*

*Two separate payments were made to the former Executive Director totaling \$4,600 for extra hours worked on modernization programs. Both payments made were well documented with backup paperwork in the modernization files made available to the two auditors present at the LHA during the audit period. The auditors were given full access to modernization files as well as Ludlow Housing Authority Minutes of the Meetings for the audit period during the audit process, with the help of the Executive Director and the office staff. Two separate LHA Board votes, October 15, 2003 in the amount of \$3,500*

*and December 11, 2003 for \$1,100 approved the payments made to the former Executive Director, as well as two separate approvals by DHCD, October 28, 2003 in the amount of \$3,500 as well as February 27, 2004 in the amount of \$1,100. . . .*

*On July 7, 2005, DHCD facsimiled information relating to the two payments totaling \$4,600 verifying knowledge and payment to the former Executive Director. On February 17, 2005, a bonus schedule from the Manual of State-Aided Housing Operations outlining a bonus schedule for Executive Directors who reach milestones within development activities was facsimiled to the LHA from DHCD outlining another form of payment to Executive Directors who reach milestones within development activities. Both projects were deemed to be development activities since both development modernization projects benefited both developments of the Ludlow Housing Authority. As well, 760 CMR [Code of Massachusetts Regulations] 11.06, (4), Allocation of Funds specifically states "Prior Department Approval. Make no payments from state modernization and development funds without prior approval." Approval was given by the Ludlow Housing Authority Board of Commissioners, DHCD and EOCD. The Hampden County Retirement Board calculated the \$4,600 within retirement calculations as the \$4,600 payment was made to the former Executive Director as salary. Irregardless of DHCD Regulations, HCRB is ruled by the regulations of the HCRB. The Ludlow Housing Authority has provided due diligence to the Assistant Director of Audits in its efforts on two occasions (July, 2005 and presently) to answer audit findings of the State Auditor's Office.*

### **Auditor's Reply**

Despite the positive response to both Audit Results on this issue in the prior and current reports, the Authority has not demonstrated through supporting documentation how \$4,600 in extra compensation was calculated. The Authority has not presented any details to support how many hours and on what days the former Executive Director worked to accrue time to substantiate additional requests for "extra pay." This is not an issue of approval, but of a lack of supporting documentation for the extra hours as a basis for approval. DHCD approvals of Requests for Payment are based upon the assumption that the LHA has documents to support the extra hours worked. However, the Authority has not demonstrated when the "extra" work was done. We note that, if such work were performed during the normal hours under the former Executive Director's workday, there would no entitlement for extra pay.

We do not dispute the two payment vouchers provided for the \$4,600 during both of our reviews. We do, however, question the lack of supporting documentation for these vouchers that should be a normal part of the Authority's files in order to document any extra hours worked beyond those contracted for. These transactions would be appropriate if the additional hours claimed can be documented. Otherwise, this award appears to be questionable employee "bonus" that was not made equally available to all Authority employees under a formal policy and that lacked a specified funding mechanism.

In this regard, if the Authority can provide any further documentation, which identifies when the former Executive Director worked the extra hours, we will review them as support of the original decision. Until such documentation is provided, this audit issue remains unresolved.

**c. Improvements Needed in Tenant Application Process**

Our prior review of the Authority's tenant application process revealed that, contrary to DHCD requirements, the Authority did not consider incomplete applications, did not assign control numbers to all applicants, and did not notify all applicants of their rights. Consequently, eligible applicants may have been denied housing and their right to appeal the Authority's decision. In response to our prior report, the Authority's Executive Director stated that she had been in contact with DHCD to discuss the issues brought forth in our audit and will work with DHCD officials in properly updating the waiting list to ensure that only qualified applicants are housed.

Our follow-up review of the tenant selection process and related records showed that various improvements are still needed in the tenant application process. We noted the following conditions during our review:

- A total of 163 of 395 applicants did not have their eligibility status posted in the master ledger.
- For 12 applicants who were housed, the offer and acceptance columns in the waiting list were blank.
- Although 55 applicants were determined eligible for the waiting list, they were then removed from the waiting list due to lack of reasonable information to process their applications.
- For 40 applicants, priority and preference postings in the master ledger were not in agreement with the same information in the waiting list.
- New control numbers were issued whenever an applicant's priority or preference changed.

The Authority's waiting list cited 760 CMR 5.08(g) as the reason for removing the 55 applicants from the waiting list. Executive Office of Housing and Economic Development regulations, 760 CMR 5.08, *Determination of Qualification for Placement*, states, in part:

*(1) In making its final determination the LHA shall determine if applicant and household members are qualified for public housing. An applicant and the applicant household shall be disqualified for public housing for any of the following reasons: . . . .*

*(g) The applicant or a household member has failed to provide information reasonably necessary for the LHA to process the applicant's application.*

Therefore, 760 CMR 5.08(g) comes into effect when the Authority makes its final determination of qualification for placement of applicants, and then the Authority may disqualify the applicant for the reason given in 760 CMR 5.08(g). Since the Authority was removing applicants within a few months or less after the application date and not during the final determination of placement, the Authority was not properly following the regulations in determining the preliminary eligibility of the applicants and was improperly placing them on the waiting list.

The Authority's Executive Director stated that some of these conditions occurred because the Authority had hired a new tenant selector in 2006. The new tenant selector was unfamiliar with DHCD regulations, at times was using an older version of these regulations, and found it difficult to interpret the regulations. However, we did note that the cited conditions existed prior to the hiring of the new tenant selector. Additionally, the new tenant selector has been released; therefore, we were unable to interview this person to obtain the exact reasons why these conditions occurred.

### ***Recommendation***

The Authority should seek assistance from DHCD to put in place an accurate waiting list to ensure that all applicants are processed and housed properly. The Executive Director, who is responsible for supervising and managing personnel, should provide the proper training and reviews of the work to ensure its accuracy.

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

*The Ludlow Housing Authority has reviewed the recommendations of the State Auditor's Office and has consulted with the Department of Housing & Community Development to ensure that the wait list ledger and waiting list are completed within guidelines of DHCD. The Authority is secure that eligible applicants are housed properly. A seasoned tenant selector has been hired. As well, the LHA has been informed that DHCD is working toward a universal computerized wait list ledger and waiting list.*

***Auditor's Reply***

The various tenant ledgers established by the Authority should improve controls over the entire selection process, including application, selection, and placement, and should help to ensure that vacancies are minimized. Our review again noted that the Authority has issues in controlling this process, and noted that retaining proficient staff is a challenge that faces all public entities competing for public funds.

**4. DELAYS IN FILLING VACANCIES AND IMPROVEMENTS NEEDED IN MAINTAINING THE VACANCY LEDGER**

Our review showed that the Authority experienced delays in filling vacant units and that the vacancy ledger was not being maintained properly. Specifically, we noted that the Authority had delays in filling 21 of 62 housing units that became vacant during our audit period, resulting in delayed housing of those in need and the lost opportunity to earn potential rental income. The 21 units included seven of eight Project 705 family units and 14 of 54 Project 667 elderly units that became vacant during the audit period. Additionally, we found that the Authority's vacancy ledger did not always document the reasons for these delays, vacancy dates, dates units were ready, and control numbers of new tenants were not always posted.

DHCD's Property Maintenance Guide states 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. Additionally, it requires that the vacancy ledger document the reasons for vacancy periods longer than 21 days and that all columns of the vacancy ledger be completed properly. Our review showed that these 21 units were vacant for periods of one to 55 days beyond the 21-day turnaround time.

The Executive Director stated that the Authority was short two maintenance staff personnel during some of the audit period and that excessive repairs and clean up of units was needed in many of the family housing units. Relative to the vacancy ledger not being properly posted, the Executive Director stated that the Authority was also documenting vacancy information in reports produced by the Authority's computerized Public Housing Authority (PHA) Network System. Nevertheless, DHCD recognizes the manual vacancy ledger as the official record of the Authority, and not a vacancy record system purchased from an outside vendor.

**Recommendation**

Since the Authority has applicants on its waiting list, it should make every effort to comply with DHCD guidelines to ensure that vacant units are ready to be occupied within the recommended 21-day turnaround time. The Authority should ensure that all entries in the vacancy ledger are complete and accurate. In addition, the Authority should contact DHCD to address the use of electronic computerized records for its vacancy information.

**Auditee's Response**

*The Authority will make every effort to comply with DHCD regulations to ensure that vacant units are ready to be occupied within the 21-day turnaround time, pending emergencies that may arise in the normal workday. As well, the Authority will continue to advocate for additional operating budget funding to provide maintenance work hours in order to perform the duties of unit turn-over maintenance.*

*The LHA is required to report on vacancy turn-over through an on-line vacancy ledger kept for the Department of Housing & Community Development. The Department is aware of the vacancy rate of the units and understands the need for the extra maintenance work performed to get these units back on-line for occupancy*

**Auditor's Reply**

We recognize that the Authority is developing a budget to adequately address unit turnover maintenance and is aware that each vacancy requires a unique amount of work to prepare it for occupancy, including painting, flooring, plumbing, etc. Also, we understand that maintaining two vacancy listings, one manual and one computerized, is a time-consuming process. The Authority should continue to discuss, along with other authorities, the replacement of manual vacancy ledgers system with DHCD. Also, since it is so required under DHCD's standard lease agreement, the Authority should send ongoing reminders to tenants to provide 30-days notice prior to vacating in order for the Authority to effectively schedule repairs and maintenance to vacated units. In addition, the Authority should encourage tenants to report all necessary repairs in a timely manner to ensure that minor repairs do not become major problems upon termination of a tenancy.

In addition, we, along with the Authority, recognize that the 21-day standard is arbitrary and needs to be revisited, understanding that some units take longer than others to be put back on line. Further, it is important to recognize that it is not fiscally prudent to expend great amounts of money to have outside contractors repair and renovate vacant units, the cost of which could far exceed the potential income of the next tenant. A more effective standard would be whether

the Authority places units back on line in a reasonable and responsible timeframe given the condition of and the cost to repair the units, as approved by the board.

## 5. MANAGEMENT PLAN NEEDS UPDATING

Our review of the Authority's Management Plan, which was created in 1987 and revised in 1994, showed that although the plan had the necessary components (e.g., organization, personnel policies, job descriptions, DHCD regulations) there was no indication that it had been adequately updated since 1994. In fact, we noted that the plan included outdated DHCD regulations. Regular updates and documentation thereof is important in order to reflect changes in the Authority's policies, procedures, and scope of operations. Moreover, an updated and complete Management Plan is the basis for establishing and maintaining the systems necessary for the proper administration of public housing, as well as implementing a system of internal control and ensuring compliance with DHCD's internal control requirements.

DHCD's Accounting Manual for State-Aided Housing Programs states, in part:

*The management of each Local Housing Authority is responsible for developing and implementing a system of internal control which will:*

*Safeguard the assets of the organization.*

*Assure the accuracy and reliability of accounting data.*

*Promote operational efficiency.*

*Encourage adherence to prescribed Managerial Policies, State Statutes, and DHCD Rules and Regulations.*

Additionally, 760 Code of Massachusetts Regulations (CMR) 4.00, General Administration of Local Housing Authorities, Section 4.03, states, in part:

*From time to time the Department may develop and issue guidelines and/or standard forms to be used by the LHA in connection with the provisions of 760 CMR 4.00, 5.00, 6.00, 8.00, 11.00, 49.00, and 53.00 and with reports required by the Department. Each LHA shall employ the current guidelines and the current forms.*

Furthermore, 760 CMR 5.16 states, in part:

*It is the responsibility of each LHA to ensure that it is adhering to the current guidelines and utilizing all current forms.*

The Authority's Management Plan should document all current guidelines, policies, and forms as required by the CMRs.

The Executive Director stated that she was in the process of updating the Management Plan.

***Recommendation***

The Executive Director should continue her efforts to update the Authority's Management Plan and ensure that all updates are initialed and dated.

***Auditee's Response***

*The Authority's Executive Director will continue her efforts to update the Authority's Management Plan and to ensure that all updates are initialed and dated as time permits.*

***Auditor's Reply***

We continue to stress that it is important to update and at least annually have the board and Executive Director discuss and review the Authority's Management Plan for adequacy and consistency with current operations. In addition, computerization, current operational structuring and functions, and legal and regulatory changes, including DHCD directives and CMRs, need to be added to the plan.

**6. IMPROVEMENTS NEEDED IN THE PILOT AGREEMENT PROCESS, AND PAYMENTS FOR 705 PROJECT NEED TO BE REVIEWED**

We noted that the Town of Ludlow was billing the Authority for Payment in Lieu of Taxes (PILOT) using a formula different from that which was agreed upon in the original 1980 PILOT agreement signed by the town and the Authority. Additionally, the formula in this agreement varied from DHCD's fiscal year 2007 and 2008 Budget Guidelines formulas. As a result, for fiscal years 2007 and 2008, the Authority made PILOT payments to the town totaling \$37,761 instead of the \$10,146 owed according to the agreement. This resulted in an apparent \$27,615 overpayment by the Authority.

We discussed these differences with the Authority's Executive Director and fee accountant. Both persons agreed that the PILOT tax bill received from the town was calculated incorrectly per DHCD's formula; however, they stated that there was a Revenue Department ruling made in years past stating that the Authority had to pay the amount billed by the Town. They also stated

that they have had discussions with the Town Assessors, who would not alter their method of billing.

The original PILOT agreement with the town, signed October 7, 1980 states, in part:

*Each annual Payment in Lieu of Taxes shall be made at the time when real property taxes on such housing would be paid if it were subject to taxation and shall be in an amount not to exceed: (1/2 Full Value Tax Rate + \$100) x number of bedrooms).*

However, the actual PILOT tax bill sent by the town was based on one-half the total assessed valuations of the Authority's 705 projects plus the number of bedrooms multiplied by \$100.

Additionally, the original PILOT agreement states that the amount to be paid by the Authority shall not exceed the amount determined by the formula in the agreement; however, the amount actually billed by the town exceeded the PILOT agreement formula. Further, DHCD's PILOT formula in the annual Budget Guidelines has the same wording as in the agreement, except that there are no parentheses in the formula. The addition of these parentheses would result in a different calculation.

A review of Authority records showed that in July 1990, the Department of Revenue (DOR) issued a letter to the Town's Board of Assessors stating that the term "full value tax rate" was ambiguous and that any such ambiguity must be construed against the Authority. DOR stated that the intent of the PILOT agreement formula was for half the property's fair cash value rather than half the tax rate. In a letter to the Authority, DHCD stated that DOR had informed it that the decision was based on past practice and that the Authority had set a precedent by paying this amount for 10 years. This ruling was limited to this particular agreement and was not to be applied to other municipalities. Therefore, this Authority was paying a PILOT tax bill amount that was much larger than other authorities, whose PILOT payments were based on DHCD's formula. DHCD also stated in this letter, "In the future any new agreement entered into by the Authority and the Board of Assessors must incorporate the interpretation of the formula as determined by EOCD." This statement is particularly important since the Authority will be developing a 689 project, and as such will need to sign a new PILOT agreement with the town for this project.

**Recommendation**

Since the Authority will need to sign a new PILOT agreement with the Town of Ludlow for its upcoming 689 project, the Authority, the Town of Ludlow, and DHCD should ensure that the proper PILOT formula is written in the new agreement. The Authority should revisit the 705 project PILOT agreement terms to ensure that they are consistent with those of other authorities, which are billed on one-half the tax rate, and not one-half the assessed valuation, in compliance with Chapter 121B of the General Laws.

**Auditee's Response**

*The Authority will discuss a new PILOT agreement with the Town for its upcoming 689 project. At that time, the Authority will revisit the existing PILOT agreement for its 705 properties and a December 7, 1990 final decision of the Massachusetts Department of Revenue regarding the PILOT agreement between the Town of Ludlow and the Authority at that time.*

**7. QUESTIONABLE USAGE OF MODERNIZATION FUNDS**

Our review of Authority expenditures revealed that modernization funds were used to fund two bonuses for the Executive Director totaling \$3,500 and to reimburse the administrative fund account for some prior purchases of computer-related items totaling \$2,581, as discussed below:

**a. Executive Director Bonuses**

Approved minutes of board meetings for July 2006 and May 2007 showed that the board voted to approve two bonuses for the Executive Director using modernization funds; one bonus was for \$1,000 (from modernization work plan #1009 Installation of Ventilation System funds), whereas the other was for \$2,500 (from modernization work plan #1008 Window Replacement funds). The July 2006 minutes state, in part:

*The Executive Director brought forth a 4/10/87 guideline from DHCD outlining Executive Director Bonus Incentives for those LHAs approved to undertake development activities.*

However, we found that this "DHCD guideline" was actually a faxed copy of one page from a multi-page memorandum from a DHCD official dated April 10, 1987. This guideline stated that the bonus was for authorities that had approved development activities and was meant "to acknowledge significant accomplishments demonstrated through the achievement of specific development milestones within a mutually agreed upon timeframe." The guideline depicted five categories of bonuses at \$500 each; the number of projects in development determined the total

bonus amount. One of these bonus categories was for final completion of contract, and specifically denoted that it was for the closeout of a Development Account.

However, our review of this guideline found that it never stated that the bonus was for modernization activities, only projects in development. The Authority did not have any projects in development during this time frame. The May 2007 minutes also referenced this guideline for the \$2,500 bonus. One member of the board questioned what the \$2,500 bonus was for prior to voting approval.

DHCD's Capital Finance Manager referred this matter to a project manager, but stated in her referral that the bonuses "were based upon [the former DHCD Director's] memo from 4-10-87 which allowed bonuses for E.D.'s who reached certain milestones in development projects."

DHCD's project manager responded, in part:

*The term "bonus" wouldn't have meant much when I reviewed the request, if the board approved payments out of the work plan to the Executive Director, and it was within the allotted budget, I would have approved it.*

However, the board did not have bonuses allotted in its budget. Therefore, we question the propriety of this bonus.

The 760 CMR 5.00 states, in part:

*It is the responsibility of each LHA to ensure that it is adhering to the current guidelines and utilizing all current forms.*

Referencing a 1987 memorandum does not meet the above-mentioned criteria of adhering to current guidelines.

DHCD's fiscal year 2008 Budget Guidelines, *Key Highlights and Changes in FY08*, contained a new guideline for bonuses that allowed up to \$1,000 each for staff or the Executive Director. However, these guidelines state that the goal of this initiative is to encourage and reward the development of new local initiatives, such as starting up a computer-learning site or on-site daycare for tenants. Additionally, the guidelines state that the bonuses should be shown separate from base salaries on the Schedule of All Positions and Salaries; therefore, the bonus would be depicted in the Authority's approved budget and operating statements.

**Recommendation**

The Authority and DHCD should review the propriety of this bonus payment and seek reimbursement should the payment be deemed improper.

**Auditee's Response**

*The Authority has reviewed the propriety of the bonus payment. The Department of Housing & Community Development was contacted pursuant to the request of the State Auditor's Office. In an April 10, 1987 Memorandum from the Executive Office of Communities & Development regarding Administrative Fees for Modernization and Development Projects forwarded to the Authority from the Department of Housing & Community Development, the Authority is secure in its approval and dissemination of payments made to the Executive Director under the April 10, 1987 guidelines.*

*As per documentation submitted to the auditor during the audit period, all payments were made in conformance to DHCD guidelines. The faxed copy of a page from a multi-page memorandum (noted in the audit report) was forwarded to the Executive Director by DHCD prior to Board approval as a template for these bonuses. The Executive Director requested approval through the appropriate channels and received both bonuses through approval and payment of EOCD for hours worked on both projects above and beyond the part-time hours of a normal work week throughout the projects. Although the State Auditor's Office interprets the memorandum to state that bonuses will be given for projects in development, DHCD and EOCD made payments based on projects completed within a development. The LHA has discussed the interpretation by both parties with DHCD. In the future, the Executive Director will be paid for hours worked above and beyond the part-time hours of a normal work week through guidelines within the DHCD Modernization Manual, Chapter 2, Payments for Administrative Fees. Under the Guidelines, "administrative funds are available up to five percent of the total grant. In cases where an executive director already works part-time, EOCD will consider the LHA's request to increase the number of executive director work hours during the course of the modernization program."*

*The audit report states that "One member of the Board questioned what the \$2,500 bonus was for prior to voting approval." It is only by explanation and discussion of facts that the Board of Commissioners can make well-informed decisions on behalf of the Authority. The audit report neglected to state that during the May 2007 Board meeting, that a very detailed explanation of the extra hours worked above and beyond the part-time hours of the Executive Director took place. As well, a copy of the detailed memorandum faxed to the Authority by DHCD in order to implement the two bonuses was shared with the Board of Commissioners. It was through discussion that the Board of Commissioners was able to assess and approve the bonuses. In addition, the Board commended the Executive Director for her hard work and dedication to both projects.*

**Auditor's Reply**

Our determinations and conclusions are based on the facts presented. The 1987 EOCD memorandum clearly does not reference bonuses as being an appropriate and acceptable use for modernization funds or contain definitive language that supports the Authority's claim that modernization bonuses were or should have been considered part of a development budget.

**b. Computer-Related Purchases**

In August 2006, the Authority requested reimbursement of \$1,500 from modernization work plan #1009 (Installation of Ventilation System) funds to pay for various computer hardware and software items. DHCD sent a Payment Approval Form in August 2006 and informed the Authority that a modernization check/electronic funds transfer was issued on August 30, 2006. These purchases were then booked to modernization work plan #1009 in September 2006. However, our review of supporting documents showed that these items were actually purchased approximately 1½ years prior to the reimbursement request filed by the Authority. The items were paid from the Authority's administrative fund account in February and May 2005, and subsequently booked to the Project-400 management account. Contrary to DHCD's application contract for this work plan, there was no prior approval or line item set up in the modernization budget for these purchases. Supporting documents showed that some of these items were used to upgrade the Executive Director's computer.

Additionally, in November 2006 purchases were made for a \$770 computer and two \$190 19" LCD monitors that were paid from the administrative fund and booked to the Project-400 management office supplies account. Approximately six months later the Authority requested reimbursement from modernization work plan #1008 (Window Replacement) funds to pay for these expenses even though they were already paid for. DHCD sent a Payment Approval Form dated May 31, 2007 and sent a check to the Authority from modernization funds on August 7, 2007.

Even though these items were purchased with administrative funds and booked to the Project-400 management account, the Authority later sought and obtained approval from DHCD to be reimbursed from modernization funds for the same expenses. Therefore, two different projects were charged for the same expenses.

Additionally, we noted that the amounts charged to the modernization work plans were different than the total dollar value of the supporting documents attached to the payments. Work plan #1008 was charged \$1,000, but the attached supporting documents totaled \$1,093. Similarly, work plan #1009 was charged \$1,581, but the supporting documents totaled only \$1,501.

Regarding both these expenditures, the Executive Director stated that DHCD builds administrative funds into every modernization account budget for these purposes. DHCD's Modernization Manual, Local Housing Authority (LHA) Administrative Funds, states, in part:

*These administrative funds are available up to five percent of the total grant. These funds are not on-going support to the LHA's operation and they may not be used to increase a full-time executive director's salary.*

Additionally, DHCD's grant application for modernization states, in part:

*The Authority further agrees that it shall not without prior written approval of the Department: Enter into any contract for services or for the purchase of material or equipment pursuant to the Work Plan/Approved Budget.... make any expenditure of capital improvement not specifically authorized in the Work Plan/Approved Budget approved by the Department.*

We question the approval and use of modernization funds for these expenditures, since the computer-related equipment was already paid for from administrative funds in a prior period and approval from DHCD to use modernization funds for this equipment was obtained after the items were initially purchased.

Our review of minutes of board meetings showed that the Authority was in need of modernization funds to improve its projects. These minutes showed that DHCD would not fully fund an Authority project in need of repair and that the Authority did not want to use its reserves to make up the difference.

### ***Recommendation***

The Authority's board should ensure that all payments from modernization funds are within regulations, supporting documents related to expenditures are current, and expenditures are relative to modernization funds. DHCD should ensure that the Authority utilizes modernization funds when granted and modernization funds are used for the maximization of improvements to the Authority's projects.

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

*The Authority will ensure that all payments from modernization funds are within regulations, supporting documents related to expenditures are current and that expenditures are relative to modernization funds.*

*Computer related purchases were reimbursed through Work Plan #1008 and Work Plan #1009 as allowed by DHCD guidelines, Modernization Manual, Chapter 2, Payments for*

*Administrative Fees. As the Executive Director is responsible for the budget of any work plan carried out within the LHA, the reimbursement for administrative expenses was not sought until the near close-out of the two projects as any unforeseen change orders to the work plans would have negated any possible reimbursement to the LHA for any administrative expenses. The administrative funds were available for these purchases as up to five percent of the total grant can be used for administrative purposes. The Board of Commissioners of the Authority is responsible to ensure that all payments from modernization funds are within regulations and that supporting documents related to expenditures are current within each modernization plan.*

*We are responsible to authorize and approve any payments. Should the Department not deem the expenses as appropriate, the Ludlow Housing Authority is informed of the decision and no payment is then made to the Authority. The funds were not part of ongoing support to the LHA operation. The purchases were one time purchases and allowed by DHCD and EOCD as the payments were approved and paid as reimbursable expenses.*

*The Board of Commissioners of the Ludlow Housing Authority has and is adhering to the current guidelines and utilizing all correct forms as advised by DHCD and EOCD. The Authority's Board has ensured that all payments from modernization funds are within regulations, supporting documents related to expenditures are current, and expenditures are relative to modernization funds. If the expenditures were not relative to modernization funds, they would not have been approved by DHCD and supported by payment from EOCD.*

#### **Auditor's Reply**

We acknowledge that the expenditures dates were within the modernization time period dates, but the actual purchase dates were not current with the reimbursement request date and the modernization project timeframes. DHCD approvals are based on Request for Payments documents and the dates thereon. DHCD has no way of knowing that the items were purchased and paid from administrative funds 1 ½ years prior to the Request for Payment.

Moreover, the Authority's response that the funds were not part of ongoing support to its operation is inconsistent with the actual transactions that took place. The purchases of computer equipment were accomplished through the Authority's operational budget. These administrative operating expenses were identified at the time to support and be utilized within the entire Authority operation. The retroactive application of administrative costs is improper, questionable, and not consistent with the related modernization projects completed. DHCD should review this entire matter to ensure that there was no misuse of funds, take appropriate action to ensure proper accountability, and make appropriate adjustments and recoveries of funds.