



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-0729-3A

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
NATICK HOUSING AUTHORITY**

APRIL 1, 2005 TO JUNE 30, 2007

**OFFICIAL AUDIT
REPORT
MARCH 12, 2008**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Natick Housing Authority for the period April 1, 2005 to June 30, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to assess its compliance with laws, rules, and regulations applicable to each program. Based on our review, we have concluded that during the 27-month period ended June 30, 2007, except for the issues noted in the Audit Results section of our report, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations, for the areas tested.

AUDIT RESULTS

3

1. EXCESSIVE DELAYS RESULT IN LOST POTENTIAL RENTAL INCOME OF APPROXIMATELY \$276,310

3

Our review of the Authority's vacant unit turnaround time disclosed that during the audit period, the Authority encountered excessive delays in preparing vacant apartments for occupancy, and may have lost the opportunity to earn approximately \$276,310 in potential rental income. Specifically, it took the Authority well beyond the recommended 21-day timeframe established by the Department of Housing and Community Development (DHCD) to reoccupy vacant units.

2. NONCOMPLIANCE WITH DHCD VACANCY REPORTING REQUIREMENTS

4

During the audit period, the Authority was not in compliance with DHCD's vacancy reporting requirements because it did not submit quarterly vacancy reports and establish an online vacancy ledger as required by DHCD.

3. INADEQUATE CONTROLS OVER CREDIT CARD EXPENDITURES

5

During our audit, we found that the Authority lacked sufficient internal controls over expenditures made with the Authority's credit card. We found that certain expenditures were not supported with the proper documentation, and that the Authority's Executive Director charged expenses to the credit card that were not related to the business purposes of the Authority.

4. UNAUTHORIZED EMPLOYEE LONGEVITY PAYMENTS

6

During our review of payroll expenditures, we found that the Authority made longevity bonus payments totaling \$2,295 to its employees which were charged its state programs in accordance with the Authority's personnel policy, but which were contrary to DHCD's budget guidelines.

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 Natick Housing Authority for the period April 1, 2005 to June 30, 2007. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to assess 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's procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- 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's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- 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.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended June 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

At the conclusion of our audit, a draft copy of this report was provided to the Authority, who chose not to submit a formal response.

AUDIT RESULTS

1. EXCESSIVE DELAYS RESULT IN LOST POTENTIAL RENTAL INCOME OF APPROXIMATELY \$276,310

Our review disclosed that during the audit period, the Authority may have lost the opportunity to earn approximately \$276,310 in potential rental income from state-aided housing programs because its vacant units were not reoccupied within the 21-day timeframe established by the Department of Housing and Community Development (DHCD). We found that 113 units were vacant an average of 161 days, for periods ranging from 1 to 700 days. Further, we found that 30 units were vacant prior to our audit period but filled during our audit period. These units were vacant an average of 280 days, for periods ranging from 46 to 804 days. Additionally, we found five units that were vacant because the Authority designated these units as “off-line” or unavailable units. However, these units were not approved as “off-line” units by DHCD. Of these five units, two have been vacant since 1999, one since 2002, and the remaining two since 2003.

The units were not filled because they were not refurbished and ready for reoccupancy in a timely manner. It took an average of 147 days to ready the units vacated during the audit period for occupancy. DHCD’s Property Maintenance Guide, effective January 1, 1991, states that a “reasonable target for average vacancy turnover is 21 working days.” According to the Authority’s vacancy ledger, the excessive delays in filling units were at times due to poor apartment conditions. The Executive Director indicated that there was a problem during this period with the previous maintenance supervisor, who failed to prioritize repairs of the vacant units to assure the units would be refurbished in a timely manner. They also stated that it was difficult to fill second floor units in elderly programs, and that they lacked the financial resources to hire outside contractors to assist in refurbishing units. In a letter received after the completion of our audit fieldwork, the Executive Director stated, “... our maintenance department is doing a much better job of rehabbing vacant units. We are reducing the down time of units and increasing the quality of the rehabbed unit. Our administrative staff is also lining up new tenants sooner in the hope of reducing our vacancy losses.”

Recommendation

The Authority should comply with DHCD regulations by ensuring that units are reoccupied within the DHCD timeframe. It should place additional emphasis on refurbishing units in a more expeditious manner and on prioritizing repairs in order to minimize the potential loss of rental income.

2. NONCOMPLIANCE WITH DHCD VACANCY REPORTING REQUIREMENTS

During the audit period, the Authority was not in compliance with DHCD's vacancy reporting requirements because it did not submit quarterly vacancy reports and establish an online vacancy ledger as required by DHCD. Section 7 of DHCD's Accounting Manual discusses authority vacancy reporting, stating; "This [vacancy] report is to be completed quarterly and submitted with your operating statement at year-end." These quarterly vacancy reports summarize the vacant units during the quarter, categorizing the vacancies as current, exceeding 30 days, or exceeding 60 days. The Authority's submission of these vacancy reports allows DHCD to monitor the Authority's ability to fill units in a timely manner and any problems encountered in attempting to fill units. Additionally, DHCD can monitor units that have been removed or designated as "off-line" and the reasons for removing these units.

We also found that the Authority has not established an online vacancy ledger. 760 Code of Massachusetts Regulations 5.16(2) states that "The LHA [Local Housing Authority] shall maintain the department's prescribed on-line vacancy ledger in accordance with guidelines issued by the department as they may be amended from time to time." We found that the Authority has been maintaining a hand-written ledger; however, the ledger did not consistently include information stating the reasons why the units remained vacant for long periods of time (e.g., how many times a unit was offered and to whom or if the unit required extensive renovations). While the Authority does maintain a spreadsheet regarding to whom the unit is offered, this information should be duly noted in the vacancy ledger to ensure that all unit information is up to date and accurate. DHCD requires an online vacancy ledger to track and monitor the time it takes to refurbish and reoccupy units. The Executive Director stated that they did not comply with DHCD's vacancy reporting requirements because they believed that, as a non-subsidized Authority, they were not required to submit vacancy reports. In a letter received from the

Executive Director after the completion of our fieldwork, he stated the Authority is “now reporting our vacancies on-line with DHCD.”

Recommendation

The Authority should continue to comply with DHCD vacancy reporting requirements, including filing quarterly vacancy reports and maintaining an online vacancy ledger.

3. INADEQUATE CONTROLS OVER CREDIT CARD EXPENDITURES

During our audit, we found that the Authority lacked sufficient internal controls over expenditures made with the Authority’s credit card. We found that expenditures were not supported with proper documentation. In addition, we found that the Authority’s Executive Director charged expenses to the credit card that were not related to the business purposes of the Authority.

Our review of the credit card statements for the 27-month audit period determined that there were 290 credit card transactions totaling approximately \$25,500. We found that only 21, or 7% of the credit card transactions, were supported by documentation such as a store receipt. Some of the unsupported transactions were for expenditures made by the Executive Director that were unrelated to the business purposes of the Authority. Several expenditures were for gasoline, entertainment, and food expenses. Further, we found \$3,019 in fuel charges that lacked sufficient documentation to allow us to determine if the fuel charges were Authority-related. We also noted that the Authority had recorded on its ledger a receivable due from the Executive Director totaling \$6,385 as of June 30, 2007. The Executive Director reimbursed the Authority during our fieldwork.

Subsequent to our fieldwork, the Executive Director provided additional information for the unsupported transactions, including the fuel charges. He provided us with a written explanation for many of the expenses; however, he did not provide us with receipts or other documentation. The Executive Director stated in his explanation that many of the fuel expenditures were to attend conferences or meetings, for travel associated with apartment inspections, and for fuel for an Authority-owned vehicle. Also, as part of his review of these expenses, the Executive Director acknowledged that an additional \$511 in personal expenditures were charged to the Authority’s credit card. Since this explanation originated after the completion of our audit

fieldwork, we cannot express an opinion on its adequacy, and we will review any and all corrective actions taken during our next scheduled audit.

Our audit further disclosed that the Authority does not have a policy to regulate the use of its credit card. Without adequate controls requiring proper documentation, review, and approval by the Board of Directors for expenditures made on the Authority's credit card, there is inadequate assurance that the Authority's credit card is safeguarded against possible misuse.

After our fieldwork, the Executive Director provided us with a copy of a credit card policy that was adopted at the October 11, 2007 Board of Director's meeting. The policy states, "The NHA [Natick Housing Authority] credit card will only be used for authorized expenditures directly associated with NHA business. Personal use is prohibited except in unusual circumstances."

Recommendation

The Authority should ensure that all credit card expenditures are accompanied by the proper documentation, used only for Authority-related expenses, and approved by the Board of Directors.

4. UNAUTHORIZED EMPLOYEE LONGEVITY PAYMENTS

During our review of payroll expenditures, we found that the Authority made longevity bonus payments totaling \$2,295 to its employees which were charged to its state programs in accordance with the Authority's personnel policy. However, DHCD budget guidelines do not allow for longevity bonus payments.

The Authority's personnel policy states, in part; "Each NHA employee is entitled to a one-time longevity payment for each five (5) years of continuous service to the Authority..." The payments range from \$150 for five years of service to \$400 after 30 years of service. We also found that the Executive Director receives annual longevity payments of \$925 as part of his employment contract. However, we found that the Executive Director's contract had not been approved, as required, by DHCD. According to DHCD officials, all Executive Director contracts must be reviewed and approved by DHCD. We reviewed the Authority's annual budget and did not find the bonus payment specifically delineated as part of the employee's

salary; rather, it appeared that the bonus payment was included in the employee's base salary. DHCD budget guidelines do not allow for longevity payments to an employee. The Executive Director stated the Authority's long-standing policy was put into place to address staff salaries at a time when salaries were frozen due to budgetary constraints. In a letter received after the completion of our fieldwork, the Executive Director stated, "The Authority is also reviewing our Longevity Payments Policy and will conform it to/with DHCD and HUD guidelines."

Recommendation

Until DHCD approves the longevity bonus payments as part of the annual budgetary process, the Authority should discontinue making any further payments. Also, DHCD should review and approve the Executive Director's contract.