



# 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. 2008-0905-3A

**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
WARREN HOUSING AUTHORITY  
MAY 1, 2005 TO JUNE 30, 2007**

**OFFICIAL AUDIT  
REPORT  
OCTOBER 10, 2007**

---

## 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 Warren Housing Authority for the period May 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 evaluate its compliance with laws, rules, and regulations applicable to each program. Based on our review, we have concluded that during the 26-month period ended June 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

---

### **AUDIT RESULTS**

**3**

#### **PRIOR AUDIT RESULTS RESOLVED**

**3**

##### **a. Accounting and Financial Reporting Deficiencies**

**3**

Our prior audit of the Authority (No. 2005-0905-3A), which covered the period April 1, 2003 to April 30, 2005, disclosed that the it did not have general ledger postings or completed financial statements subsequent to December 31, 2003. In addition, contrary to state regulations and the terms of the Authority's contract for accounting services, the Authority's fee accountant did not present its fiscal year 2003 Balance Sheets and Operating Statements to the Authority and the Department of Housing and Community Development until May 2005. Also, it appeared that during the period September 2003 through April 2004, the Authority paid its fee accountant \$1,974 for services not rendered.

Our follow-up review determined that the Authority hired a new fee accountant and has properly updated its general ledger and submitted all required financial statements to the Department of Housing and Community Development through June 30, 2007.

##### **b. Management Control Weaknesses**

**4**

Our prior review disclosed a number of control weaknesses at the Authority pertaining to administrative oversight by the Board of Directors and inadequate administration of the Authority, as well as noncompliance with regulations, by the Executive Director. Specific deficiencies included the lack of annual unit inspections, improper revenue reporting to the Internal Revenue Service, incorrect check register balances, inadequate monitoring of laundry receipts, and inadequate supporting documentation for signed payroll checks.

Our follow-up review determined that the Authority has addressed the management control weaknesses identified during the prior audit. During the period May 1, 2005 to June 30, 2007 the Authority performed annual inspections, properly reported landlord payments to the Internal Revenue Service, reconciled check register balances monthly, monitored its laundry receipts and maintained supporting documentation for payroll checks.

## 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 Warren Housing Authority for the period May 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 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'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 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.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- Follow-up of issues noted in our prior audit report No. 2005-0905-3A.

Our tests in the above-mentioned areas disclosed no material weaknesses.

Based on our review, we have concluded that during the 26-month period ended June 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

---

## AUDIT RESULTS

### PRIOR AUDIT RESULTS RESOLVED

#### a. Accounting and Financial Reporting Deficiencies

Our prior audit (No. 2005-0905-3A) disclosed that the Authority did not have general ledger postings or completed financial statements subsequent to December 31, 2003. In addition, contrary to state regulations and the terms of the Authority's contract for accounting services, the Authority's fee accountant did not present its fiscal year 2003 Balance Sheets and Operating Statements to the Authority and the Department of Housing and Community Development (DHCD) until May 2005.

Our prior review also noted the following additional financial accounting deficiencies:

- Bank statements had not been reconciled since December 2003.
- The December 2003 bank statement was not properly reconciled, noting a \$933 variance that we found to be two checks not reported as outstanding.
- Various project expenditures had not been pro-rated.
- Inventory additions and deletions had not been posted, and a physical reconciliation of actual inventory to general ledger entries had not been completed for two years.
- Modernization cost and grants had not been posted and accounted for.
- MRVP subsidies had not been posted and reconciled to records.
- Tenant accounts receivable balances had not been reconciled and posted to the general ledger accounts.

Our follow-up review noted the Authority hired a new fee accountant in August 2005. The current fee accountant has updated and submitted all financial statements to DHCD up through the audit period ending June 30, 2007. Additionally,

- Our review of the bank reconciliations for December 31, 2005, December 31, 2006, and June 30, 2007, found that the bank statements had been properly reconciled and accurately reported on the submitted financial statements. The fee accountant reconciles the bank statements on a monthly basis.
- Our review of 50 expenditures found that all were properly pro-rated according to the approved cost allocation schedule.

- Our review of inventory additions and deletions found that there were no additions but all deletions were properly posted, and a physical reconciliation of actual inventory to general ledger has been completed.
- Modernization costs were updated and posted for the five projects that were active during the audit period.
- MRVP subsidies were posted and reconciled to Authority records for the two Fiscal Years ended December 31, 2005 and 2006 and also the period ended June 30, 2007.
- Tenant accounts receivable balances were reconciled and accurately posted to the general ledger accounts as of December 31, 2005, December 31, 2006 and June 30, 2007.

**b. Management Control Weaknesses**

Our prior audit disclosed a number of control weaknesses at the Authority pertaining to administrative oversight by the Board of Directors and inadequate administration of Authority operations as well as noncompliance with regulations by the Executive Director.

Specifically, our prior review noted the following deficiencies:

- Inadequate Administration and Oversight of Authority Operations: Our review revealed that the Authority's board was unaware that the fee accountant was not complying with the terms of his contract and that the Authority did not have up-to-date financial records. In fact, one board member did not realize that it was the board's responsibility to review the Authority's financial statements. Additionally, we noted that during our audit period, the board cancelled 10 (40%) of the 25 scheduled board meetings.
- Annual Inspections: The Authority failed to perform annual inspections of their units in the fall of 2004. The reason given was that the Executive Director was unable to perform the inspections because of a medical problem.
- Improper Revenue Reported to the Internal Revenue Service (IRS): Our review of Authority expenditures revealed that the Authority improperly reported payments to the IRS for a landlord in its Massachusetts Rental Voucher Program (MRVP) by \$914. The 2004 IRS Form 1099 issued to the MRVP landlord was issued for \$3,328, instead of \$4,242 because the Authority did not reconcile its vendor reports when the annual tax forms were prepared.
- Incomplete and Inaccurate Check Register Balances: Since its fee accountant had not reconciled the Authority's bank statements since December 2003, the Authority did not have a verified working balance of cash to operate from. Our review of the Authority's computer system revealed that the Authority's checking accounts reflected negative balances of \$346,058 as of December 31, 2003, \$516,035 as of December 31, 2004, and \$582,502 as of April 30, 2005. The Authority's administrative assistant informed us that she was limited to posting only rents received as deposits, and that all other deposits were to be posted by the

fee accountant to the General Ledger or by the Executive Director to the computer system. However, the receipt of Modernization funds, transfers between accounts and other miscellaneous revenues were not posted to the computer checkbook register.

- Laundry Receipts Not Monitored: The Authority's contract with a vendor to provide tenant laundry services called for the Authority to receive 50% of the revenues collected. According to Authority records, which could not be verified, the Authority received \$7,792 from the vendor during the 25-month period of our review. Our audit revealed that the Authority received checks from the vendor on a quarterly basis only. Moreover, the vendor did not provide the Authority with any kind of meter readings for laundry activity, and the Authority was not present upon the collection of revenues from the machines.
- Payroll Checks Signed without Supporting Documentation: On August 10, 2005, we observed the Treasurer and the Chairman of the Authority's board signing payroll checks without reviewing any supporting documentation. When we inquired about this practice, the board members stated that the board routinely signed payroll checks in advance because they were not always available during the month when payroll checks would be needed. However, there was no supporting documentation at the time the checks were signed, because the services had not yet been rendered. Moreover, there was no indication of sick, vacation, or personal time being used, and there was no assurance that the proper allocation of time used would be properly recorded.

Our follow-up review determined that the management control weaknesses noted during the prior audit have been addressed, as follows:

- Administration and Oversight of Authority Operations: Our review of the Board minutes determined that the Board met 24 of the 26 months during our audit period. In addition, we determined that the Board reviewed copies of financial statements presented at each Board meeting.
- Annual Inspections: Our review of eight tenant files, determined that the Authority inspected the eight units in October 2006. The Executive Director indicated that she intends to inspect all units annually each October. In addition, we inspected three units and found each unit to be in acceptable condition.
- Revenue Reported to the Internal Revenue Service (IRS): Our review indicated that the Authority properly reported payments to the IRS for all six landlords in its Massachusetts Rental Voucher Program for Calendar Years 2005 and 2006.
- Check Register Balances: Our review determined that the Authority's fee accountant has reconciled the Authority's bank statements to the Authority's check register for December 31, 2005, December 31, 2006 and June 30, 2007. Our review of the Authority's computer system revealed that the Authority's current Executive Director was able to input all deposits.

- Laundry Receipts: The Authority now receives checks and statements from the vendor on a monthly basis. In addition, the current Executive Director has instituted a new policy that requires the vendor to submit a count of all monies received. The Director then utilizes this count to reconcile to the monthly statements received from the vendor.
- Payroll Supporting Documentation: The current Executive Director prepares an ongoing balance of leave time on a weekly basis. This leave time combined with time worked is utilized as supporting documentation for payroll approval. Also, the Board determines that employees have adequate leave time prior to approving payroll checks.