



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

SUZANNE M. BUMP, ESQ.
AUDITOR

TEL (617) 727-6200
FAX (617) 727-5891

NO. 2010-0855-3R

**INDEPENDENT STATE AUDITOR'S REPORT
ON THE
WINCHENDON HOUSING AUTHORITY'S
USE OF AMERICAN RECOVERY AND
REINVESTMENT ACT FUNDS
JULY 1, 2009 TO JUNE 30, 2010**

**OFFICIAL AUDIT
REPORT**

JANUARY 31, 2011



SUZANNE M. BUMP, ESQ.
AUDITOR

The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

TEL (617) 727-2075
FAX (617) 727-2383

January 31, 2011

Dear Mr. Connor,

Enclosed is an audit report for your review. This audit of the Winchendon Housing Authority covers the audit period of July 1, 2009 to June 30, 2010. This is one of a number of audits commenced and largely completed during the tenure of my predecessor, State Auditor A. Joseph DeNucci. Should you desire more information relative to this audit, please contact me.

I look forward to fostering a cooperative relationship between our respective offices. If my staff or I may be of assistance at any time, please do not hesitate to call upon us. I know we both share the goal of making government work better.

Sincerely,

A handwritten signature in black ink, appearing to read "SMB", written over a horizontal line.

Suzanne M. Bump, Esq.
Auditor of the Commonwealth

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

The Winchendon Housing Authority (WHA) is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws. The WHA was awarded an American Recovery and Reinvestment Act (ARRA) grant for capital improvements in the amount of \$232,667 for the replacement of stoves and refrigerators and paving and sidewalk repair at its two public housing projects. As of June 30, 2010, the WHA had expended the full amount of the grant and was in the process of closing the grant.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of certain activities of the WHA for the period July 1, 2009 to June 30, 2010. The objectives of our audit were to conduct a review of certain federal stimulus funds received and expended by the WHA and to review the management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate compliance with laws, rules, and regulations applicable to ARRA.

Based on our review, we have concluded that, except for the matters discussed in the Audit Results section of this report, during the 12-month period ended June 30, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested. After concluding audit fieldwork, a draft of this report was provided to Authority officials for their review and response; however, WHA officials chose not to provide a written response.

AUDIT RESULTS

3

IMPROVEMENTS NEEDED IN THE PROCESSING OF AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FUNDS IN A TIMELY MANNER

3

Our review of the ARRA funds received and expended disclosed that WHA needed to improve its internal controls over its drawdown of ARRA funds. We found that the WHA requested funds and after processing payments against that request, had excess funds in its account for 21 business days after the first drawdown and 22 business days after the second drawdown. The Department of Housing and Urban Development requires that all ARRA funds should be expended within three business days. The Director stated that he was unaware of the three-day requirement.

INTRODUCTION

Background

The Winchendon Housing Authority (WHA) is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws. The Authority oversees 242 public housing units, 167 elderly state units, 24 family units, and eight special needs housing units. There are also an additional 17 scattered site public housing units and 36 federal Section 8 vouchers that are administered by the WHA.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of certain activities of the WHA for the period July 1, 2009 to June 30, 2010. The objectives of our audit were to conduct a review of certain federal stimulus funds received and expended by the WHA and to review the management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate compliance with laws, rules, and regulations applicable to the American Recovery and Reinvestment Act (ARRA).

Our audit scope was limited to federal stimulus funds the WHA received under the ARRA. During our audit period, the WHA was awarded an ARRA grant for capital improvements in the amount of \$232,667 for the replacement of stoves and refrigerators and paving and sidewalk repairs at its two public housing projects. As of June 30, 2010, the WHA had expended the full amount of the grant and was in the process of closing the grant. The following table details the federal stimulus funds awarded, received and expended during the audit period.

<u>Program/Purpose</u>	<u>Amount of Award</u>	<u>Contract Term Start</u>	<u>End</u>	<u>Revenue Received</u>	<u>Expenses Reported</u>
<i>Capital Fund Formula Grant</i>					
<i>Appliances</i>	\$ 84,466	1/28/10	6/30/10	\$ 84,466	\$ 84,466
<i>Paving and Sidewalk Repair</i>	<u>148,201</u>	3/1/10	6/30/10	<u>148,201</u>	<u>148,201</u>
<i>Total</i>	<u>\$232,667</u>			<u>\$232,667</u>	<u>\$232,667</u>

Our audit was conducted in accordance with applicable 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:

- Federal stimulus funds awarded to the Authority;
- Administrative expenses charged to the ARRA grant award to determine whether funds were expended for intended purposes and were reasonable;
- Internal control procedures developed and utilized by the Authority to ensure accountability for the administration and expenditure of ARRA funds;
- Procedures for making payments to contractors to verify compliance with established rules and regulations;
- Cash-management and drawdown procedures to determine whether the Authority complied with ARRA requirements;
- WHA's ARRA reports to determine whether it was in compliance with reporting requirements;
- Site inspections to determine whether the work was completed; and
- Verification of whether the Authority has applied for, or plans to receive additional ARRA funds in the future.

Based on our review, we have concluded that, except for the matters discussed in the Audit Results section of this report, during the 12-month period ended June 30, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested. After concluding audit fieldwork, a draft of this report was provided to Authority officials for their review and response; however, WHA officials chose not to provide a written response.

AUDIT RESULTS

IMPROVEMENTS NEEDED THE IN PROCESSING OF AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) FUNDS IN A TIMELY MANNER

Our review of the ARRA funds received and expended disclosed that the Winchendon Housing Authority (WHA) needed to improve its internal controls over its drawdown of ARRA funds. We found that the WHA drew down funds twice prior to making payments to its vendors; however, it did not expend the total amount of these funds for 21 and 22 days, respectively, after receiving the funds. The Department of Housing and Urban Development (HUD) requires that all ARRA funds should be expended within three business days.

WHA submits its drawdown requests for ARRA funds using the HUD's Line of Credit Control Site, (LOCCS) a website used by housing authorities to request ARRA funds. Once approved, LOCCS then transmits funds to an interest-bearing account at WHA's financial institution. HUD's policy notice PIH 2009-12 entitled "Information and Procedures for Processing American Recovery and Reinvestment Act Capital Fund Formula Grants" regulates the expenditure and distribution of ARRA funds as follows: "The HA shall requisition funds only when payment is due and after inspection and acceptance of the work and shall distribute the funds within three working days of receipt of the funds."

Also, Title 34 Code of Federal Regulations (CFR), Part 80 establishes uniform administrative requirements for grants to state and local governments. The regulations under 34 CFR § 80.20(b)(7) require, in part, that the grantee's financial management systems meet the following standard: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S Treasury . . . When advances are made by . . . electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements..."

OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments, regarding transfers to grant recipients, states that "[s]uch transfers shall be made consistent with program purposes, applicable law and Treasury regulations contained in 31 CFR Part 205, Federal Funds Transfer Procedures." The regulations under 31 CFR § 205.12(b)(4) require that the grantee requests funds not more than three business days prior to the day that it initiates the disbursements.

Our review of WHA's fiscal policy indicated that the Executive Director is responsible for drawing down funds as needed; however, as shown below, the WHA had excess cash for more than 21 and 22 days, respectively, before it processed the corresponding expenditures.

<u>Date</u>	<u>Funds Received</u>	<u>Funds Expended</u>	<u>Excess Cash Balance</u>	<u>Number of Business Days for Expenditures</u>
April 15, 2010	\$ 85,729	-	\$ 85,729	-
May 14, 2010	146,938	-	232,667	-
May 17, 2010	-	\$ 84,466	148,201	21
May 17, 2010	-	99,176	\$ 49,025	1
June 16, 2010	-	<u>49,025</u>	-	22
Total	<u>\$232,667</u>	<u>\$232,667</u>		

As a result of drawing the funds down 21 to 22 days before disbursing the funds, the Authority earned interest on those federal funds. Excess federal funds held more than three days must be returned to the federal government along with any interest earned. We discussed the issue with the WHA's Executive Director, who stated that he was unaware of the three-day requirement and has since contacted HUD. The Executive Director stated that he drew down the funds prior to the approval of the Board of Directors to pay vendors; their disbursement was delayed while awaiting Board approval. Also, the Executive Director drew down funds in anticipation of paying the vendor who supplied the refrigerators; however, because the vendor initially did not provide the WHA with the necessary payroll information needed to calculate the number of jobs created for the ARRA reporting, the Authority withheld payment.

Recommendation

The WHA should contact HUD to discuss this matter to determine if any interest earned on the federal funds should be returned to HUD.