



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued February 2, 2012

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## Webster Housing Authority

For the period March 1, 2008 through November 30, 2010



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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Webster Housing Authority for the period March 1, 2008 through November 30, 2010. The objectives of our audit were to review and analyze the Authority's management controls and practices over certain areas and functions for the purpose of determining their adequacy and review the Authority's compliance with laws, rules, and regulations. We also conducted a follow-up review of the Authority's progress in addressing the issue noted in our prior audit report (No. 2008-0807-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period March 1, 2008 through November 30, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our prior audit (2008-0807-3A) of the Webster Housing Authority, which covered the period January 1, 2006 to January 31, 2008, found that the Authority failed to issue Internal Revenue Service (IRS) Form 1099-MISC to five contractors during calendar years 2006 and 2007. In addition, two of the 1099 forms that were issued for calendar year 2007 were understated; one by \$60 and the other by \$1,800. Our current review found that because of the turnover in staff during our audit period, the Authority could not assure us that the 2006 and 2007 1099 forms were issued. Moreover, during our current audit, we found that the Authority failed to issue Form 1099-MISC during 2008 to one contractor who was paid \$12,394. For calendar year 2009, we could not find information to indicate that the Authority issued 1099 forms to any contractors. Eight contractors, paid a total of \$29,909, should have been issued 1099-MISC forms.

#### **2. CONTROLS OVER CERTAIN ADMINISTRATIVE FUNCTIONS NEED STRENGTHENING**

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Our review identified that the Authority needs to strengthen its internal controls over certain administrative functions, including (a) inventory control, (b) reserve levels, (c) documentation of board meetings, and (d) filling vacant units, as follows:

##### **a. Inventory Control**

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Our review found that the Authority did not maintain a complete, up-to-date inventory listing of its furniture and equipment. The Authority has a list of refrigerators and stoves dated 2009; however, it could not provide us with a list of capital and non-capital inventory items for the state programs. The Authority did have a card system listing the asset, tag number, and cost of many items; however, we were unable to locate many of the items. We found that the Authority reported inventory valued at \$43,680 on its 400-1 program financial statements; however, without a list of equipment providing a

description of the item, inventory tag number, date purchased, the program that purchased the equipment, and the purchase price, we could not verify the accuracy of that balance. Without an up-to-date inventory list verified annually, there is inadequate assurance that the Authority's assets will be accounted for properly and are adequately safeguarded against possible loss, theft, or misuse.

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The Authority's net assets-unrestricted account, formerly known as the operating reserves, has experienced a decline in the balance below the levels recommended by the Department of Housing and Community Development (DHCD) over the last two years. We found the Authority has sustained net losses during the last two fiscal years.

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During our audit, we reviewed the Board of Directors' meeting minutes to obtain an understanding of the activities of the Authority; however, we were unable to determine that all meetings were properly documented. The Authority did not have meeting minutes for nine meetings that were advertised with the Town Clerk. Therefore, we could not determine if those meetings were held or cancelled.

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DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Our review found that from March 1, 2008 through November 30, 2010, the Authority's average turnaround time for reoccupying vacant units was 64 days. Because of the delays in filling 46 units, the Authority may have lost the opportunity to earn approximately \$16,630 in potential rental income from state-aided housing programs.

## **INTRODUCTION**

### ***Background***

The Webster Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority has 72 one-bedroom apartments located at Golden Heights for elderly and handicapped residents (Chapter 667) and 30 family units (Chapter 200, one, two and three bedroom apartments) located at Second Island Road and Thompson Road. There are 16 one-bedroom special needs housing units (Program 689) located at Golden Heights and North Main Street. The Authority also has four vouchers (one and two bedroom units) for the Massachusetts Rental Voucher Program of which three units are located in Webster and one unit is in Dudley. The Authority also administers two federal programs with 61 one bedroom apartments for elderly and handicapped residents (Program 123-1) located at Golden Heights and 35 Section 8 Program vouchers located in the towns of Douglas, Dudley, Oxford, Southbridge, Webster and Worcester.

### ***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 Webster Housing Authority for the period March 1, 2008 through November 30, 2010. The audit was conducted at the request of the current Executive Director following the departure of the previous Executive Director in September 2009 and the absence of a full-time Director until July of 2010. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivables; (5) site inspections; (6) payroll, travel, and fringe benefits; (7) disbursements; (8) inventory controls over property and equipment ; (9) contract procurement; (10) cash management and investment practices; (11) Department of Housing and Community Development (DHCD)-approved budgets versus actual expenditures; (12) level of need for operating subsidies and operating reserves; (13) administration of modernization funds to determine, among other things, the existence of excess funds; and (14) the Massachusetts Rental Voucher Program. We also conducted a follow-up review of the Authority's progress in addressing the issue noted in our prior audit report (No. 2008-0807-3A).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with 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 and to determine whether the Authority has in place an updated official maintenance plan for its managed properties.
- Procedures for making payments for payroll, travel, and fringe benefits to verify compliance with established rules and regulations.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- 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.

- Net assets-unrestricted account 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 those funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- 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.
- The Authority's progress in addressing the issue noted in our prior audit report (No. 2008-0807-3A).

Based on our review, we have concluded that, except for the issues noted in the Audit Results section of the report, for the period March 1, 2008 through November 30, 2010, 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 RESULT UNRESOLVED - IRS FORM 1099-MISC NOT PREPARED FOR ALL ELIGIBLE CONTRACTORS

Our prior audit (2008-0807-3A) of the Webster Housing Authority, which covered the period January 1, 2006 to January 31, 2008, found that the Authority failed to issue Internal Revenue Service (IRS) Form 1099-MISC to five contractors paid \$20,356 during calendar year 2006 and five contractors paid \$25,644 during calendar year 2007. In addition, two of the 1099 forms that were issued for calendar year 2007 were understated; one by \$60 and the other by \$1,800. IRS regulations require entities to prepare and file with the IRS a Form 1099-MISC that details the name of each contractor, federal reporting number, and amount paid to each contractor that receives more than \$600 during a calendar year. We recommended that the Authority correct its IRS filings for 2006 and 2007 and distribute IRS Form 1099-MISC to those vendors.

Our current review found that because of the turnover in staff during our audit period, the Authority could not assure us that our prior recommendations were implemented and the 2006 and 2007 1099 forms were issued. Moreover, during our current audit, we found that the Authority failed to issue Form 1099-MISC to one contractor who was paid \$12,394 during 2008. For calendar year 2009, we could not find information to indicate that the Authority issued 1099 forms to any contractors. Eight contractors, paid a total of \$29,909, should have been issued 1099-MISC forms. During our audit fieldwork, we found that the Authority properly issued Forms 1099-MISC to all contractors for calendar year 2010.

#### ***Recommendation***

The Authority should correct its IRS filings for 2008 and 2009 and issue a Form 1099-MISC to each contractor that received more than \$600 in either year from the Authority. In the future, the Authority should establish procedures to ensure that all 1099-MISC Forms are properly prepared and filed with the IRS in a timely manner.

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

We will comply with the suggestion of the State Auditor's Office.

## 2. CONTROLS OVER CERTAIN ADMINISTRATIVE FUNCTIONS NEED STRENGTHENING

The Department of Housing and Community Development's (DHCD) Accounting Manual for State-Aided Housing Programs provides guidance to local housing authorities (LHAs) in ensuring adequate internal controls over administrative functions. Specifically, Section 8 of the Accounting Manual states:

*The management of each Local [Housing] Authority is responsible for developing and implementing a system of internal controls 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.*

Our review identified that the Authority needs to strengthen its internal controls over certain administrative functions, including (a) inventory control, (b) reserve levels, (c) documentation of board meetings, and (d) filling vacant units, as follows:

### a. Inventory Control

Our review found that the Authority did not maintain a complete, up-to-date inventory listing of its furniture and equipment. DHCD's Accounting Manual for State-Aided Housing Programs, Section 15, states, in part:

*A formal system for the inventory of furniture and equipment [must] be established by program by all LHAs. The inventory will be composed of two separate parts; a capital inventory which will include all furniture and equipment costing \$5,000 or more which will be capitalized and depreciated and a non capital/control inventory for all items expensed at purchase but costing \$1,000 or more (refrigerators and stoves are to be included regardless of price).*

Authorities may choose lower thresholds than those listed, but not higher. DHCD guidelines call for the Authority to establish furniture and equipment record cards or use an automated inventory control system. Also, the Authority should assign an inventory tag with an assigned asset number to each item in its inventory, and conduct an inventory annually. The Authority has a list of refrigerators and stoves dated 2009; however, it could not provide us with a list of capital and non-capital inventory items for the state programs. The Authority did have a card system listing the asset, tag number, and cost of certain items; however, we were unable to locate many of the items. The Authority had several cards marked 667-1 program and we were able to



locate 12 of 32 items on the cards. We found some community room items such as a refrigerator, folding tables, a rocking chair, and a couch; however, we were unable to locate a second couch and rocking chair, some table lamps and three air conditioners. We reviewed other cards inventorying the Authority's office equipment and were able to locate 13 of 91 items listed. We found a small refrigerator, the Executive Director's desk, table and chairs and three air conditioners. Some of the items we couldn't locate were file cabinets, computer equipment, a copier and two fax machines. The office equipment items were not designated as state or federal inventory. We also randomly selected 84 items around the office and found 60 of those items did not have an inventory tag. We found that the Authority reported equipment inventory totaling \$43,680 on its November 30, 2010 400-1 program financial statements; however, without an up-to-date list of equipment providing a description of the item, inventory tag number, date purchased, the program which purchased the equipment, and the purchase price, we could not verify the accuracy of that balance.

We also reviewed the Authority's inventory policy, which consists of a letter from its Fee Accountant, dated 1987, discussing "the new required procedures for inventory accounting" and copies of the DHCD Accounting Manual, dated October 1986, discussing inventory control. While much of the information contained in the Accounting Manual has not changed, the policy does not address specific responsibilities or current methods or threshold levels for inventorying items at the Authority. The Authority does have a Capitalization Policy, which indicates that items costing \$5,000 or more will be capitalized and depreciated. Without an up-to-date inventory list verified annually, there is inadequate assurance that the Authority's assets will be accounted for properly and are adequately safeguarded against possible loss, theft, or misuse.

#### **b. Reserves below Recommended Levels**

The Authority's net assets-unrestricted account, formerly known as the operating reserves, has experienced a decline in the balance and has been below the DHCD-recommended levels over the last two years.<sup>1</sup> We found that the Authority has sustained net losses during the last two fiscal years. As a result, the Authority may not have the financial resources to fund emergency situations as they arise.

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<sup>1</sup> During our fieldwork, the Authority closed fiscal year 2010 with a negative balance of \$14,324 in its 400-1 program.

The Authority's net assets-unrestricted account has declined as follows:

Date	Balance
December 31, 2007	\$ 61,496
December 31, 2008	\$ 20,841
December 31, 2009	\$ 18,399

Prudent business practices advocate that the Authority have sufficient reserves to pay for any unforeseen expenses. Moreover, DHCD's Accounting Manual, Section 14, states, in part:

*DHCD believes the one true indicator of the financial status of a management program is a correctly calculated operating reserve. Operating reserve is not just the combination of unrestricted and restricted net assets but is calculated by adding certain GAAP expenditures to the total of these two balances. . . . The purpose of the operating reserve is threefold. First, the operating reserve allows LHAs to have funds necessary for cash flows. Some months more cash is paid out than is received and it is therefore necessary to have additional cash to meet these needs. Second, LHAs must have reserve funds to meet emergency situations such as major boiler or roof repairs that have not been anticipated in the budget. Third, the operating reserve is used to fund non-routine expenditures such as the replacement of refrigerators and ranges. DHCD has established full and minimum balances for operating reserves that act as benchmarks for LHAs to assess the relative value of their operating reserve balances. The problem in evaluating the operating reserve has always been the question of what is the true balance. The operating reserve actual balance is always some balance either positive or negative, but the true operating reserve balance requires an analysis of the balance sheet and an understanding of how balance sheet items affect operating reserve.*

DHCD measures the net assets-unrestricted balance based on the maximum and minimum balances at the close of each fiscal year. The maximum amount is based on 50% of the fiscal year budgeted expenditures and the minimum is 40% of the maximum amount. During fiscal years 2008 and 2009, the Authority's net assets-unrestricted account was below DHCD's recommended minimum levels, as outlined in the chart below:

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>
Maximum Reserve Levels	\$242,366	\$235,854
Minimum Reserve Levels	\$96,946	\$94,342
Net Assets-unrestricted Balance Year End	\$20,841	\$18,399
Percentage of Maximum	8.60 %	7.80%

The following chart identifies the budgeting practices of the Authority as a contributing factor to the declining balance. We found that the Authority had projected a loss in only one of the two years; however, each year the Authority sustained losses that contributed to the net assets-unrestricted account's continuing decline below the minimum levels suggested by DHCD.

<u>Fiscal Year</u>	<u>Budgeted Net Profit(Loss)</u>	<u>Actual Net Loss</u>	<u>Difference</u>
2008	(\$2,668)	(\$40,655)	(\$37,987)
2009	\$2,774	(\$2,442)	(\$5,216)

Without the proper monitoring of the budget by the Board of Directors and the Executive Director, the Authority may not be able to address emergency situations arising in the future.

### **c. Documentation of Board Meetings**

During our audit, we reviewed the Board of Directors' meeting minutes to obtain an understanding of the activities of the Authority; however, we were unable to determine that all meetings were properly documented. The Authority did not have meeting minutes for nine meetings that were advertised with the Town Clerk. From the Authority's records, we could not determine if those meetings were held or cancelled. Prior to July 1, 2010, the Commonwealth's Open Meeting Law, Massachusetts General Law Chapter 39, Section 23B, stated, in part:

*A governmental body shall maintain accurate records of its meetings, setting forth the date, time, place, members present or absent and action taken at each meeting, including executive sessions. The records of each meeting shall become a public record and be available to the public.*

Effective July 1, 2010, the Legislature repealed the existing Open Meeting Law and replaced it with Chapter 30A, Sections 18 through 25 of the General Laws. Section 22(a) states:

*A public body shall create and maintain accurate minutes of all meetings, including executive sessions, setting forth the date, time and place, the members present or absent, a summary of the discussions on each subject, a list of documents and other exhibits used at the meeting, the decisions made and the actions taken at each meeting, including the record of all votes.*

The Authority has three books that contain minutes, correspondence, and other reports; however, we could not find documentation that the meetings were either held or cancelled. Because of the turnover in staff during our audit period, the current staff members could not

provide us with the necessary information to determine if the nine meetings were held and whether board meeting minutes were prepared. Without accurate public records of meetings held, the public cannot be sure what information was discussed or what decisions were made by the Board of Directors.

**d. Vacant Units Not Filled in Accordance with DHCD Guidelines**

The Department of Housing and Community Development's (DHCD) Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Our review found that during the period March 1, 2008 through November 30, 2010, the Authority's average turnaround time for reoccupying vacant units was 64 days. Because of the delays in filling 46 units, the Authority may have lost the opportunity to earn approximately \$16,630 in potential rental income from state-aided housing programs. We reviewed the Authority's vacancy ledger and noted the condition of 10 of 13 vacant family units was listed as very bad, poor, or extremely poor condition. These units account for \$6,833 of the total vacancy loss. The Executive Director indicated that during our audit period, three maintenance employees retired. Because of retirements and maintenance staff using leave time, there were periods where the Authority only had two maintenance employees available to perform all the required maintenance work. Currently, the Authority uses its maintenance employees to perform all of the repairs, since it lacks the financial resources to hire outside contractors.

***Recommendation***

The Authority should strengthen its internal controls by (a) updating its inventory policy, preparing an inventory listing of all items, and reconciling the inventory listing to its financial statements; (b) reviewing future budgets and monitoring current spending to determine whether adjustments can be made that will increase the Authority's reserves to ensure that it has adequate reserve funds available for unforeseen occurrences; (c) ensuring that all Board of Directors meeting are properly documented within the Authority's records; and (d) ensuring its vacant units are filled within DHCD's recommended timeframe. The OSA has sent a copy of this report to DHCD officials requesting they review their policies regarding housing authorities with inadequate reserve levels and evaluate the causes of this growing problem.

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**Auditee's Response**

The Executive Director responded with the following comments:

**Inventory Control:** *The WHA had inventoried all of its appliances prior to the audit. Post-audit it has inventoried all of its physical equipment and assets and is working with its fee accountant to draft an Inventory Policy that satisfies both DHCD and HUD [Housing and Urban Development] guidelines so this inventory may be categorized and carried in the appropriate manner going forward. WHA will investigate the use of the current computer program's application and the potential for a bar code and scanner application.*

**Reserves below Recommended Levels:** *In its 2011 state budget, the WHA requested, and DHCD provided, \$50,000 in funding above the ANUEL (annual non-utility expense level) in recognition of its approved management practices in the previous years which contributed to the shortfalls.*

**Documentation of Board Meetings:** *Although the minutes were not available at the Authority, individual Board Members did in fact possess minutes from several of the meetings that were tested during the audit period including April 30, 2008, May 27, 2008, February 20 (not 23), 2009 and November 24 (not 20), 2009.*

**Vacant Units:** *On 2/16/11, DHCD requested that the Authority complete vacancy waiver requests for 32 units that were vacant between 2007 and 2010. These waiver requests are still pending.*

**Auditor's Response**

With regards to the documentation of Board meetings, the Executive Director did provide us with minutes for two of the nine meetings in question, the April 30, 2008 and May 27, 2008 meetings. However, we continue to recommend that the Authority ensure that all Board meetings are properly documented within the Authority's records.