



# The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
AMHERST HOUSING AUTHORITY  
APRIL 1, 2006 TO FEBRUARY 29, 2008**

**OFFICIAL AUDIT  
REPORT  
NOVEMBER 21, 2008**

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The Amherst Housing Authority was established pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided housing project composed of 114 elderly (Chapter 667), 22 family (Chapter 705), and seven special needs (Chapter 689) housing units located in Amherst. 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 Amherst Housing Authority for the period April 1, 2006 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. Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 23-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 PARTIALLY RESOLVED - IMPROVEMENTS MADE OVER THE AUTHORIZATION AND DOCUMENTATION OF PAYROLL RECORDS

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Our prior audit report (No. 2005-0597-3A) of the Authority noted that improvements were needed over the authorization and documentation of payroll records. Specifically, we found mathematical errors in the attendance records that resulted in both over- and under-accrual of sick time, vacation time, and compensatory time. We also noted that employees submitted self-prepared time and attendance forms and timesheets on a weekly basis and tabulated their own accruals for sick and vacation leave and compensatory benefits. However, these self-prepared calculations were not reviewed and approved by management on a timely basis. Furthermore, it was disclosed that the Executive Director did not report her work hours on the daily timesheet forms.

Our follow-up review revealed that the Authority has addressed these prior audit issues. However, a review of the Executive Director's timesheets revealed that they were not approved by a member of the Board of Commissioners. Additionally, our review noted that the Board, contrary to the Authority's personnel policies, had not conducted an annual performance review of the Executive Director since 2004. In response to our report, the Authority stated that the Chair of the Amherst Housing Authority evaluated the Executive Director in October 2008 and will sign monthly timesheets.

#### 2. EXCESSIVE VACANCIES RESULTED IN APPROXIMATELY \$6,020 IN UNEARNED POTENTIAL RENTAL INCOME

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Our audit disclosed that the Authority did not fill vacant units within the timeframe required by the Department of Housing and Community Development (DHCD). DHCD requires that housing authorities shall have vacant units readied for occupancy within 21 business days. However, we found that the Authority had 15 units that remained unoccupied for a total of 786 excess days beyond DHCD's 21-day limit.

Consequently, the Authority may have lost the opportunity to earn approximately \$6,020 in potential rental income. In its response, the Authority stated that it makes every effort to ready and lease units for occupancy in accordance with DHCD guidelines. The excessive vacancies were the result of fiscal constraints that were out of the Authority's control, which forced the Authority to cut maintenance contract costs and maintenance supplies.

**3. IRS 1099-MISC INCOME INFORMATION FORM NOT PREPARED FOR CERTAIN AUTHORITY VENDORS**

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Our review disclosed that the Authority did not issue Internal Revenue Service (IRS) Form 1099-MISC to 12 vendors who were paid \$95,500 for calendar years 2006 and 2007 for their services. For each contractor paid over \$600 during a calendar year, IRS regulations require entities to prepare and file with the IRS a Form 1099-MISC that details the name of the contractor, federal reporting number, and amount paid. In response to our report, the Authority stated that 1099-MISC Income forms for vendors have been processed and controls are now in place to ensure that all Forms 1099-MISC are issued as required.

## INTRODUCTION

### ***Background***

The Amherst Housing Authority was established in 1960 pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided housing project composed of 114 elderly (Chapter 667), 22 family (Chapter 705), and seven special needs housing units (Chapter 689) located in Amherst.

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

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 Amherst Housing Authority for the period April 1, 2006 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 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 re-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.

- 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 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 substantiate 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.
- The Authority's progress in addressing the issues noted in our prior report (No. 2005-0597-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 23-month audit 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 PARTIALLY RESOLVED - IMPROVEMENTS MADE OVER THE AUTHORIZATION AND DOCUMENTATION OF PAYROLL RECORDS

Our prior audit report (No. 2005-0597-3A) of the Amherst Housing Authority noted that improvements were needed over the authorization and documentation of payroll records. Specifically, we found mathematical errors in the attendance records that resulted in both over- and under-accrual of sick time, vacation time, and compensatory time. We also noted that employees submitted self-prepared time and attendance forms and timesheets on a weekly basis and tabulated their own accruals for sick and vacation leave and compensatory benefits. However, these self-prepared calculations were not reviewed and approved by management on a timely basis. Furthermore, it was disclosed that the Executive Director did not report her work hours on the daily timesheet forms.

Our follow-up review revealed that the Authority has addressed these prior audit issues; however, the Executive Director's timesheets were not reviewed by a member of the Board of Commissioners. Additionally, our review noted that the Board had not conducted an annual performance review of the Executive Director since 2004. The Authority's Personnel Policy states, in part:

*B. Performance evaluation*

*The Board of Directors will be responsible for evaluating the performance of the Executive Director*

*Performance evaluations will be completed as follows:*

*Once per year, one month before the employment anniversary date.*

When we brought this matter to the attention of the Executive Director, she stated that she was aware that her performance had not been evaluated for some time, and would bring this matter to the Board's attention.

#### ***Recommendation***

The Board of Commissioners should review the Executive Director's timesheets as required by the Department of Housing and Community Development Public Housing Notice 2007-06 and

its own Personnel Policy, and sign the timesheet to indicate that a Board member reviewed it. Moreover, the Board should conduct an annual performance review of the Executive Director.

***Auditee's Response***

*The Chair of the Amherst Housing Authority evaluated the Executive Director in October 2008 and will sign monthly timesheets.*

**2. EXCESSIVE VACANCIES RESULTED IN APPROXIMATELY \$6,020 IN UNEARNED POTENTIAL RENTAL INCOME**

Our audit identified that the Authority did not fill vacant units within the timeframe required by the Department of Housing and Community Development (DHCD). Specifically, DHCD requires local housing authorities to have vacated units readied for occupancy within 21 business days. However, we found that the Authority had 15 units that remained unoccupied for a total of 786 business days beyond DHCD's 21-day limit. Consequently, the Authority may have lost the opportunity to earn approximately \$6,020 in potential rental income during the 23-month period under audit, as follows:

<u>Housing Program</u>	<u>No. of Units</u>	<u>Excess Days Vacant</u>	<u>Potential Rental Income Lost</u>
667-1	4	96	\$ 735
667-2	6	317	2,420
667-3	2	119	919
689-1	2	229	1,754
705-1	<u>1</u>	<u>25</u>	<u>192</u>
Total	<u>15</u>	<u>786</u>	<u>\$6,020</u>

We noted that the vacancy ledger maintained by the Authority described nine of the units as in poor condition, four of the units in fair condition, and two of the units in good condition.

***Recommendation***

Because rental income is the primary revenue source for the Authority, it should make every effort to ready and lease these units for reoccupancy in accordance with DHCD guidelines.

**Auditee's Response**

*The Authority makes every effort to ready and to lease units for occupancy in accordance with DHCD guidelines. The vacancy turnover time was a result of circumstance not under the Authority's control. The Authority experienced (along with all other Housing Authorities) a 4 year period of 0 budget growth and rising costs which is addressed in the Auditor of the Commonwealth's Official Audit Report dated October 5, 2006. The Authority was forced to cut maintenance contract costs and maintenance supplies during this 4 year period which significantly impacted our ability to ready the units within a 21 day time period. However, despite these fiscal constraints, the Authority was able to ready 30 units of state-aided housing within the 21 day limit during the audit period.*

**Auditor's Reply**

We agree that that DHCD should provide additional funds to the Authority in order to meet the Authority's maintenance needs and to assist in readying units within the 21-day timeframe. As stated in our Independent State Auditor's Comprehensive Report on the Physical Condition of and Resources Allocated for the Operation and Upkeep of State-Aided Public Housing in the Commonwealth of Massachusetts, dated October 5, 2006:

*It is evident that the Commonwealth's LHAs have been severely underfunded, under subsidized and financially restricted with no increases to non-utility annual expense levels for the past four consecutive years.*

*Poor Fiscal conditions and inadequate resources are affecting the ability of Local Housing Authorities to provide safe, sanitary and affordable housing.*

**3. IRS 1099-MISC INCOME INFORMATION FORM NOT PREPARED FOR CERTAIN AUTHORITY VENDORS**

Our review disclosed that the Authority did not issue Internal Revenue Service (IRS) 1099-MISC Income Information Forms to 12 vendors who were paid \$95,500 for calendar years 2006 and 2007 for their services. According to IRS publication Circular E, Employer's Tax Guide, agencies that compensate individuals in excess of the annual threshold of \$600 must issue the individual an IRS Form 1099-MISC that details the name of the contractor, federal reporting number, and amount paid. By not adhering to the IRS requirement, the Authority could be subject to unnecessary penalties and interest.

**Recommendation**

The Authority should correct their IRS filings for 2006 and 2007 and issue 1099-MISC Income forms to the vendors. Also, in the future, the Authority should ensure that all 1099-MISC Income forms are properly prepared and filed with the IRS in a timely manner.

***Auditee's Response***

*The 1099-MISC forms for vendors [...] have been processed and controls are now in place to ensure that all 1099-MISC forms are issued as required.*