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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE EAST LONGMEADOW HOUSING AUTHORITY JANUARY 1, 2006 TO MARCH 31, 2008

OFFICIAL AUDIT REPORT

SEPTEMBER 8, 2008

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the East Longmeadow Housing Authority for the period January 1, 2006 to March 31, 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. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2005-0647-3A).

Based on our review, we have concluded that, except for the issues noted in the Audit Results section of this report, during the 27-month period ended March 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED - INTERNAL CONTROLS OVER MILEAGE REIMBURSEMENTS 3

Our prior audit report (No. 2005-0647-3A), which covered the period January 1, 2004 to March 31, 2005, disclosed that the internal controls over mileage reimbursements needed improvement. Our follow-up review revealed that the Authority has addressed this issue by developing formal policies and procedures relative to employee mileage expenses.

2. PRIOR AUDIT RESULT PARTIALLY RESOLVED - INTERNAL CONTROLS OVER PAYROLL EXPENSES 3

Our prior audit noted that internal controls over payroll expenses needed improvement. Specifically, we found that the Authority did not maintain adequate controls over (a) employee timesheets, (b) compensatory time, and (c) overtime payments. Our follow-up review indicated that the Authority has partially addressed these issues, as follows:

a. Employee Timesheets 3

Our prior report disclosed that Authority management did not sign employee timesheets as part of the weekly payroll process. In addition, during the audit period, only one of the Authority's six employees routinely signed a weekly timesheet.

Our follow-up review noted that all employees now sign timesheets and that the Executive Director regularly approves them.

b. Compensatory Time 4

Our prior report disclosed that during the prior audit period, two Authority employees received 39.5 hours in compensatory (comp) time valued at $779. However, we found that the Authority's personnel policies do not identify comp time as an authorized employee benefit. In addition, we did not find evidence within the Authority's weekly payroll records that the two employees actually worked hours beyond their regular work schedule.

Our follow-up review noted that compensatory time is no longer allowed.

c. Overtime Payments **4**

Our prior audit noted that, contrary to the Authority's policy, the Executive Director did not approve overtime for the Authority's maintenance department staff. We noted that maintenance employees receive a $60 weekly bonus for carrying an office cell phone while on call. However, this benefit is not provided for in the Authority's personnel policies. Our sample test of employee timesheets noted that maintenance personnel were paid straight time for work up to 40 hours, overtime (time-and-a-half) for hours worked over 40 hours on non-emergencies, and overtime for all after-hour emergencies. Although we found that the Authority was consistently applying this pay schedule during the audit period, it was not included within the Authority's personnel policies.

Our follow-up review noted that the Executive Director now approves overtime prior to its incurrence; however, on the advice of its attorney, the Authority has not yet updated its personnel policy, but will do so after the negotiations are complete on a new contract with personnel.

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 East Longmeadow Housing Authority for the period January 1, 2006 to March 31, 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. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2005-0647-3A).

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 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.
- 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 requirements.
- 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 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 funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.

- The Authority's progress in addressing the issues noted in our prior audit report (No. 2005-0647-3A).

Based on our review, we have concluded that, except for the issues noted in the Audit Results section of this report, during the 27-month period ended March 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED - INTERNAL CONTROLS OVER MILEAGE REIMBURSEMENTS

Our prior audit (No. 2005-0647-3A), which covered the period January 1, 2004 to March 31, 2005, disclosed that internal controls over mileage reimbursements needed improvement.

Specifically, we found that the Authority did not require its employees and board members to submit formal travel vouchers. Instead, these individuals used informal slips of paper to document their mileage expenses. Although these slips of paper identified the traveler's destination point and the number of miles traveled, they did not detail the purpose of the travel and did not contain signatures. Our review of the Authority's internal control system found that the Authority had not developed formal policies and procedures relative to employee mileage expenses. Moreover, according to agency officials, Authority management has reimbursed employee mileage expense on this ad hoc basis.

Our follow-up review revealed that the Authority has addressed this issue by developing formal policies and procedures relative to employee mileage expenses. Formal travel vouchers documenting supervisory approval and proper supporting documentation are now required.

2. PRIOR AUDIT RESULT PARTIALLY RESOLVED - INTERNAL CONTROLS OVER PAYROLL EXPENSES

Our prior audit report noted internal controls over payroll expenses needed improvement. Specifically, we found that the Authority did not maintain adequate control over (a) employee timesheets, (b) compensatory time, and (c) overtime payments. Our follow-up review indicated that the Authority has partially addressed these issues, as follows:

a. Employee Timesheets

Our prior audit noted that Authority management did not sign employee timesheets as part of the weekly payroll process. In addition, during the audit period, only one of the Authority's six employees routinely signed a weekly timesheet.

Our follow-up review noted that all employees are now required to sign timesheets and that the Executive Director regularly approves them.

b. Compensatory Time

Our prior audit noted that two Authority employees received 39.5 hours in compensatory (comp) time valued at $779. However, we found that the Authority's personnel policies do not identify comp time as an authorized employee benefit. In addition, we did not find evidence within the Authority's weekly payroll records that the two employees actually worked hours beyond their regular work schedule.

Our follow-up review noted that Authority no longer allows compensatory time.

c. Overtime Payments

The Authority's personnel policies provide specific instructions relative to employees working overtime. Specifically, the Authority's personnel policies state, in part:

> *Overtime shall be approved by the Executive Director, even in emergencies.*

Our prior audit noted that the Executive Director did not approve overtime for the Authority's maintenance department staff. Specifically, on a weekly basis, the Authority designates one employee to respond to tenant problems occurring after regularly scheduled business hours and weekends. Based upon the Authority's personnel policies, the "on-call" employees must seek Executive Director approval prior to responding to any problem. Moreover, our audit revealed that the maintenance staff did not request the Executive Director's approval for overtime as required.

As an incentive benefit, maintenance employees receive a $60 weekly bonus for carrying an office cell phone while on call. However, this benefit is not provided for in the Authority's personnel policies.

Our sample test of employee timesheets noted that maintenance personnel were paid straight time for work up to 40 hours, overtime (time-and-a-half) for hours worked over 40 hours on non-emergencies, and overtime for all after-hour emergencies. Although we found that the Authority was consistently applying this pay schedule during the audit period, it was not included within the Authority's personnel policies.

Our follow-up review noted that the Executive Director now approves overtime prior to its incurrence; however, on the advice of its attorney, the Authority has not yet updated its personnel policy, but will do so after the negotiations are complete on a new contract with personnel.

Recommendation

The Authority should strengthen its controls over the payroll system by developing and implementing personnel policies and procedures that reflect the Authority's use of overtime. The Board of Directors should closely monitor this process and authorize any changes or additions made to the Authority's personnel policies.

Auditee's Response

> *The Authority is in negotiations with their maintenance men over a union contract and the negotiations have been taking place since 2002. The Executive Director said that her lawyer advised her that any changes to the personnel policy would result in more negotiations. If any changes were made to the policy, it would result in additional negotiations by maintenance and the reason the union issue has not been resolved is because maintenance keep trying to negotiate for more in the contract. Therefore, any changes to the policy would delay the process of approving the union contract even more. The Director is well aware of the need to update the policy, but doing do at this time would not be in the best interest of the Authority. Once negotiations are done, she will revise the Personnel Policy to reflect the current practices if the Authority.*