



# 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. 2007-0590-3A

**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
BERKSHIRE COUNTY  
REGIONAL HOUSING AUTHORITY  
JULY 1, 2005 TO FEBRUARY 28, 2007**

**OFFICIAL AUDIT  
REPORT  
OCTOBER 4, 2007**

---

## TABLE OF CONTENTS/EXECUTIVE SUMMARY

---

### INTRODUCTION

1

Chapter 439 of the Acts of 1980 established the Berkshire County Regional Housing Authority (BCRHA). Under Massachusetts General Laws Chapter 121B, BCRHA created a housing development in Sheffield called Dewey Court in which it manages a 30-unit state-aided housing development comprised of 22 elderly (Chapter 667) and eight family (Chapter 705) housing units. In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the BCRHA for the period July 1, 2005 to February 28, 2007. The objectives of our audit were to assess the adequacy of BCRHA'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 the report, for the areas tested, the BCRHA maintained adequate management controls and complied with applicable laws, rules, and regulations during the 20-month period ended February 28, 2007.

---

### AUDIT RESULTS

3

#### 1. PRIOR AUDIT RESULTS – RESOLVED

3

Our prior audit (No. 99-0590-3) of the BCRHA noted that the Authority needed to repay \$63,000 to the Department of Housing and Community Development (DHCD) for the unauthorized use and transfer of development funds. During our current audit, Authority officials provided a cancelled check that showed the full payment was made on October 11, 2001. Further, the prior audit noted that the Authority had nine individual developmental programs located across Berkshire County that needed to be closed out by DHCD. During our current audit, BCRHA and DHCD provided documentation ensuring that the nine development programs have been closed out.

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

3

The DHCD Accounting Manual provides guidance to local housing authorities to help ensure adequate internal controls over administrative functions. However, our review identified that the BCRHA did not document travel costs, reconcile petty cash, deposit cash in a timely manner, or obtain the Board of Commissioners' approval prior to signing contracts. In its response, BCRHA indicated that it will develop policies that will ensure effective and efficient internal controls over travel expenses, petty cash, check deposits, and contracts. In addition, although we provided BCRHA with complete details regarding its undocumented travel costs (including the applicable general ledger account, posting date, and amount), BCRHA responded that it needed greater clarification regarding this issue.

---

**3. IMPROVEMENTS NEEDED IN INVENTORY CONTROL** **6**


---

Our review of BCRHA's inventory control procedures identified that the Authority was not complying with DHCD's established guidelines for inventory control over furniture and equipment. Specifically, our review of BCRHA's inventory, including its records and assets, noted that the Authority did not create a consolidated listing of its property and equipment, conduct an annual inspection of fixed assets, or affix property tags to all its stoves and refrigerators. In its response, the Authority indicated it would utilize an inventory template to consolidate its existing inventory lists at the Dewey Court Development. In addition, the Authority stated that it would tag all stoves and refrigerators and include these items in its inventory. BCRHA's response did not address our concerns about the Authority's lack of annual inventory inspections.

**4. NOTICE OF BOARD MEETINGS NOT POSTED AS REQUIRED BY LAW** **7**


---

Massachusetts General Law, as well as BCRHA's By-laws, mandate that the Board of Commissioners' meeting dates be posted in a public place at least 48 hours prior to the time that the Board convenes. However, our audit found that the Authority did not comply with this requirement during the audit period. In its response, BCRHA indicated that this problem was due to an inadvertent oversight. Moreover, the Authority stated that meeting notices have been consistently faxed to and received by the appropriate entities in response to the audit.

**5. TENANT ACCOUNTS RECEIVABLE BALANCES REQUIRE ADJUSTMENT** **6**


---

Our review of BCRHA's tenant accounts receivable found that outstanding rents totaling \$2,210 were carried on the Authority's books despite a Board of Commissioners' vote to write off these receivables. The balances were due from three tenants who had vacated their Dewey Court units between July 2001 and June 2003. In its response, BCRHA stated that its Fee Accountant has made the necessary adjustment to the financial statements.

**6. PAYMENT IN LIEU OF TAXES (PILOT) AGREEMENT NOT IN PLACE WITH TOWN OF SHEFFIELD** **9**


---

In accordance with M.G.L. Chapter 121B, Section 16, the BCRHA remits an annual PILOT to the Town of Sheffield. However, contrary to DHCD's Accounting Manual, the Authority did not have a signed, written PILOT Agreement with the Town of Sheffield that documents what services are to be received by the Authority in exchange for its annual payment. In its response, BCRHA indicated that it was unaware that execution of a written PILOT Agreement was a DHCD policy requirement, but would work to secure a PILOT Agreement template from DHCD to execute with the Town of Sheffield.

**7. LAND ACCOUNT OVERSTATED** **9**


---

The BCRHA's financial statements as of June 30, 2006 identified that land managed by the Authority is valued at \$257,260. However, our audit found that the land account was overstated by \$55,760. Specifically, the Authority included in the account three expired "options to purchase land" totaling \$10,760, as well as a \$45,000 parcel that was transferred to the Lee Housing Authority. According to DHCD's Accounting Manual,

each local housing authority should implement an internal control system that will “assure the accuracy and reliability of accounting data.” In its response, the Authority’s private Fee Accountant indicated that adjustments have been made to BCRHA’s financial records to correct the errors. Moreover, the Authority stated that it will continue to work with its Fee Accountant to ensure that all the Authority’s financial records reflect proper balances.

## INTRODUCTION

### ***Background***

Chapter 439 of the Acts of 1980 established the Berkshire County Regional Housing Authority (BCRHA). Pursuant to Massachusetts General Law Chapter 121B, the BCRHA created the Dewey Court housing project in Sheffield. BCRHA manages 30 state-aided housing units at Dewey Court comprised of 22 elderly (Chapter 667) and eight family (Chapter 705) units.

### ***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 BCRHA for the period July 1, 2005 to February 28, 2007. The objectives of our audit were to assess the adequacy of BCRHA'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 audit tests and procedures that 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 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 and compliant with Chapter II of the State Sanitary Code.
- 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 for the two fiscal years 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.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 99-0590-3).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 20-month period ended February 28, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

---

## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS – RESOLVED

Our prior audit (No. 99-0590-3) of the Berkshire County Regional Housing Authority (BCRHA) noted that the Authority needed to repay \$63,000 to the Department of Housing and Community Development (DHCD) for the unauthorized use and transfer of development funds. During our current audit, BCRHA officials provided a cancelled check that showed the full payment was made on October 11, 2001. Further, the prior audit noted that the Authority had nine individual developmental programs located across Berkshire County that needed to be closed out by DHCD. During our current audit, BCRHA and DHCD provided documentation ensuring that the nine development programs have been closed out.

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

Our review identified that the BCRHA needs to strengthen internal controls over certain administrative functions, including documenting travel costs, reconciling petty cash, depositing checks in a timely manner, and obtaining the Board of Commissioners' approval prior to signing contracts.

The DHCD Accounting Manual provides guidance to local housing authorities that help ensure adequate internal controls exist 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.

---

However, our review of BCRHA's internal controls over administrative functions found the following issues:

- BCRHA did not maintain supporting documentation for three of the nine travel-related disbursements it made during the audit period. BCRHA's travel costs during the audit period totaled \$436; however, we found that \$114 of that amount was not adequately supported. The DHCD Accounting Manual states that "All expenses must be vouchered and have the proper documentation attached prior to payment."
- Our review of BCRHA's Petty Cash Fund revealed that the fund balance totaled \$124, including cash and receipts. However, the BCRHA's financial statements indicated a fund balance of \$100. The BCRHA management could not explain the variance. Also, we noted that the BCRHA's Management Plan does not include policies and procedures for the administration of its Petty Cash fund.
- The BCRHA did not deposit checks in a timely manner. During the audit period, BCRHA received two commission checks from its washer/dryer vendor totaling \$180.69 and \$138.38. The commission checks were dated November 15, 2006 and February 15, 2007, respectively. The BCRHA did not deposit the two checks until April 25, 2007, or 161 days and 69 days later, respectively. We also noted that BCRHA's Management Plan does not include a policy requiring the timely deposit of cash receipts.
- BCRHA's Board of Commissioners did not vote to authorize the Authority's 10-year contract with a washer/dryer vendor or a five-year contract with a cable television provider. However, Massachusetts General Law Chapter 30B, Section 12, provides that contracts exceeding three years, including renewal, must be authorized by a vote of the Board.

### ***Recommendation***

The BCRHA should strengthen its internal controls by 1) requiring employees to submit vouchers and supporting documentation for all travel-related expenses, and 2) updating its Management Plan to include provisions governing the accounting and reporting of petty cash and cash receipts. Also, the BCRHA should develop policies and procedures to ensure that the Board of Commissioners approves all contracts.

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

In response to this audit result, BCRHA's Executive Director provided the following comments:

*BCRHA appreciates the Auditor's recommendations regarding strengthening the agency's internal controls. BCRHA continues to develop policies that will ensure effective and*



---

*efficient internal controls over administrative functions. Said policies need to be developed in a manner that will allow for them to be implemented by a relatively small agency.*

*BCRHA needs greater clarification regarding the issue of supporting documentation for travel disbursements. BCRHA has a long standing policy in place that is consistently implemented regarding travel disbursements (or travel reimbursements). Said policy requires that all employees, including the Executive Director, submit a written travel log. The travel log requires the following information be provided for review: date of trip, destination of trip, purpose of trip, and total miles of trip. All employees must have the Executive Director approve (sign-off) the travel log prior to receiving travel reimbursement. The Executive Director is required to secure approval from the Chairperson of BCRHA's Board of Commissioners. The Authority will codify this policy, so that it is available for all employees to review in BCRHA's Management Plan.*

*BCRHA will also develop a written policy regarding petty cash, so that there is an accurate accounting of all petty cash funds. It should be noted that the petty cash account in question had an excess in cash in the amount of \$24, which is money BCRHA's property manager had placed into the account, and then failed to reimburse herself for said amount.*

*BCRHA will develop a written policy regarding check deposits. Said policy will require that all checks received by BCRHA shall be deposited into appropriate BCRHA bank accounts within two business days of receipt. It should be noted that almost all of the checks (funding) that BCRHA receives are direct (or electronically) deposited into BCRHA's bank account. The deposit delays cited in this report appear to be an anomaly.*

*Pursuant to M.G.L. c. 30B, Sec. 12, BCRHA shall establish a written policy that requires BCRHA's Board of Commissioners to authorize by a Board vote all new contracts exceeding three years.*

### **Auditor's Reply**

Travel-Related Expenses: During the audit, we provided BCRHA with complete details regarding the three travel related expenditures in question, including the applicable general ledger expense account, posting date, and expense amount. However, despite several requests, BCRHA did not provide us with documentation to support the questioned expenses.

Petty Cash Fund: The BCRHA's decision to develop petty cash policies in compliance with DHCD's Accounting Manual will strengthen the Authority's system of internal controls. In this regard, the Authority's policies should ensure that the petty cash fund balance is periodically reconciled to the general ledger and properly reflected on its financial statements. Also, the Authority should ensure that employees do not subsidize the petty cash fund with their personal funds.

---

Check deposits: We commend the BCRHA's decision to develop policies to ensure the timely deposit of checks. While we acknowledge that the majority of revenue received by the Authority is direct or electronically deposited into BCRHA's bank accounts, the Authority needs controls in place to ensure that all monies received, including miscellaneous amounts, are deposited in a timely manner.

### **3. IMPROVEMENTS NEEDED IN INVENTORY CONTROL**

Our review of the BCRHA's internal controls over its inventory control procedures determined that the Authority is not in compliance with DHCD's established guidelines for inventory control over furniture and equipment. Specifically, our review of BCRHA's inventory, including its records and assets, noted that the Authority did not have a consolidated listing of its property and equipment, and its inventory is documented on three typewritten lists. In addition, an annual inspection of fixed assets was not conducted during the audit period. Finally, four of 14 stoves and refrigerators inspected did not have property tags affixed.

The DHCD Accounting Manual, Section 15(D), requires the implementation of the following inventory procedures:

- Furniture and equipment record cards or a computerized list should be established and maintained.
- A physical inventory of all furniture and non-expendable equipment inventory must be taken each year.
- All stoves and refrigerators must be tagged regardless of price. A tag shall be affixed securely on an easily accessible surface of each item of recorded non-expendable equipment.
- Once the inventory value is established, an accounting entry should be prepared for the Authority's financial records.

#### ***Recommendation***

The BCRHA should ensure that its inventory control procedures are in full compliance with DHCD requirements by establishing a comprehensive inventory listing, tagging all furniture and equipment, conducting a complete inventory annually, and reconciling the inventory list to its financial records.

---

**Auditee's Response**

In response to this audit result, BCRHA's Executive Director provided the following comment:

*BCRHA shall utilize the comprehensive Inventory Template recommended by the Auditor's office to more effectively consolidate the Authority's existing inventory lists at the Dewey Court Development. BCRHA shall continue to tag all stoves and refrigerators and said inventory items shall be included in BCRHA's new Comprehensive Inventory Template. BCRHA shall also include the three fixed assets, at the Dewey Court site, which currently consists of a tractor/lawn mower, a copier, and a fire proof file cabinet in the new comprehensive inventory listing.*

**Auditor's Reply**

We commend the Authority for taking prompt action to remedy inventory problems that were identified during the audit. However, the Authority has not addressed our concerns relative to annual inspections of property and equipment. Consequently, we reiterate that BCRHA should conduct an annual inventory of furniture and equipment in accordance with DHCD's Accounting Manual and reconcile the inventory to its financial records.

**4. NOTICE OF BOARD MEETINGS NOT POSTED AS REQUIRED BY LAW**

The BCRHA's Board of Commissioners did not properly post notice of its meetings during the audit period. M.G.L. Chapter 39, Section 23B, requires public boards to post meeting dates and times in a public place, including City Halls, with at least 48 hours notice. Further, BCRHA's By-laws state that:

*Regular meetings will conform with the open meeting laws. Pursuant to MGL chapter 39, section 23B, the Berkshire County Regional Housing Authority will file a minimum forty-eight hour notice of meeting at the offices of the Berkshire Regional Planning Commission, North Adams City Hall and Pittsfield City Hall.*

During the audit we visited the offices of the Berkshire Regional Planning Commission, North Adams City Hall, and Pittsfield City Hall. Officials at these locations informed us that BCRHA had neither delivered nor posted information relative to its planned Board meetings. The BCRHA's Executive Director stated that he delegated the responsibility for posting notices and he was unaware that the meeting notices were not posted.

**Recommendation**

The Authority members should ensure that the BCRHA By-laws are followed and that future Board meetings comply with the Open Meeting Law.

---

***Auditee's Response***

In response to this audit result, BCRHA's Executive Director provided the following comment:

*The inconsistency of the notice submission was an inadvertent oversight by BCRHA's Office Manager. Since these unintentional omissions have been brought to BCRHA's attention, meeting notices have been consistently faxed to and received by the appropriate entities.*

**5. TENANT ACCOUNTS RECEIVABLE BALANCES REQUIRE ADJUSTMENT**

The BCRHA's financial statements identified tenant accounts receivable balances totaling approximately \$2,944 as of June 30, 2006. Of this amount, approximately \$2,210 was due from three tenants that vacated their Dewey Court units between July 2001 and June 2003. The table below details these past due amounts:

<u>Tenant</u>	<u>Date Vacated</u>	<u>Amount Owed</u>
A	July 2001	\$83
B	March 2002	\$1,508
C	June 2003	<u>\$619</u>
Balance		<u>\$2,210</u>

On September 14, 2004, the Board of Commissioners, in accordance with DHCD Budget Guidelines, voted to write off the three delinquent tenant receivables. The vote was taken after BCRHA performed adequate due diligence on these accounts and determined that they were uncollectible. However, we noted that \$2,210 remains on its balance sheet as a receivable.

***Recommendation***

The BCRHA should adjust its financial statements to reflect the Board of Commissioners' vote to write off the \$2,210 in uncollectible tenant accounts receivable.

***Auditee's Response***

In response to this audit result, BCRHA's Executive Director provided the following comment:

*BCRHA's fee accountant has made the necessary adjustment to the financial statements.*

---

**6. PAYMENT IN LIEU OF TAXES (PILOT) AGREEMENT NOT IN PLACE WITH TOWN OF SHEFFIELD**

In accordance with M.G.L. Chapter 121B, Section 16, the BCRHA remits an annual PILOT payment to the Town of Sheffield. For fiscal years 2005 and 2006, the Authority's PILOT payments were made. However, contrary to DHCD's Accounting Manual, the Authority did not have a signed, written PILOT Agreement with the Town of Sheffield that documents what services are to be received by the Authority in exchange for the PILOT payment. Specifically, Section 15(G) of the Accounting Manual states:

*LHAs [local housing authorities] may make Payment In Lieu of Taxes (PILOT) in accordance with the applicable provision of the "PILOT Agreement" with the local taxing body for certain management projects.*

Local housing authorities should actively monitor the services and charges resulting from a PILOT Agreement. In this regard, Section 15(G) of the Accounting Manual further states:

*The housing authority should determine that all public services provided for in the PILOT Agreement are being received at no additional expense. If there are any such authority expenditures, the PILOT should be reduced to reflect these payments.*

***Recommendation***

The Authority should develop a PILOT Agreement that will reflect the services to be provided by the Town of Sheffield as consideration for a PILOT payment. The Authority's Board of Commissioners should present the PILOT Agreement to the Town for its authorized execution.

***Auditee's Response***

In response to this audit result, BCRHA's Executive Director provided the following comment:

*BCRHA was unaware that execution of a written PILOT Agreement was a DHCD policy requirement. DHCD has never cited the Authority in any of the reviews DHCD has conducted at the Dewey Court Development. BCRHA will work to secure a PILOT Agreement template from DHCD to execute with the Town of Sheffield.*

**7. LAND ACCOUNT OVERSTATED**

The BCRHA's financial statements as of June 30, 2006 identified that land managed by the Authority is valued at \$257,260. However, our audit found that the land account was overstated by \$55,760. Specifically, the Authority included within the account three expired "options to purchase land" totaling \$10,760, as well as a \$45,000 parcel that was transferred to the Lee Housing Authority.

---

According to DHCD's Accounting Manual, each local housing authority should implement an internal control system that will "assure the accuracy and reliability of accounting data." As a result of the audit, the Authority's private Fee Accountant indicated that adjustments have been made to the BCRHA's financial records.

***Recommendation***

The Authority should continue to work with its private Fee Accountant to ensure that the financial records reflect proper balances.

***Auditee's Response***

In response to this audit result, BCRHA's Executive Director provided the following comment:

*BCRHA's Fee Accountant has made the appropriate adjustments to BCRHA financial records. BCRHA shall continue to work with BCRHA's Fee Accountant to ensure that all the Authority's financial records reflect proper balances.*