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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
SANDWICH HOUSING AUTHORITY
JULY 1, 2003 THROUGH JUNE 30, 2005**

**OFFICIAL AUDIT
REPORT
MARCH 23, 2007**

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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 Sandwich Housing Authority for the period July 1, 2003 through June 30, 2005. On March 11, 2003, the Authority voted to contract with the Barnstable Housing Authority (BHA) for management services. The BHA is responsible for recreating and updating records, files, and computer systems; preparing and filing reports; and developing operating procedures for the Authority.

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; evaluate its compliance with laws, rules, and regulations applicable to each program; and update the status of the issues contained in our prior audit report (No. 2003-0771-11A). Based on our review, we have concluded that, during the 24-month period ended June 30, 2005, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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STATUS OF PRIOR AUDIT RESULTS

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1. ADMINISTRATION OF VOUCHER PROGRAM

Our prior audit noted that the Department of Housing and Urban Development (HUD) performed a Section Eight Management Assessment Program (SEMAP) review of the Authority's administration of its voucher program. This review, which assesses 14 key indicators of a public housing authority's performance, determined that the Authority's utilization of its Section 8 certificates was less than 95% for fiscal years 2001 and 2002. This SEMAP score resulted in HUD's categorizing the Authority as a so-called "Troubled Housing Authority." Moreover, the HUD review noted several other deficiencies, including a lack of rent reasonableness survey, incomplete rent recertification packets, and no requests for third-party verification of tenant income.

Our follow-up review determined that a corrective action plan has been implemented and that a HUD review team has performed an on-site review of the Authority's operations. Also, the Authority received notice from HUD that based on the results of its review, HUD was removing the Authority from its "Troubled Housing Authority" list.

2. COMPLIANCE WITH STATE PROCUREMENT LAW

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Our prior audit determined that the Authority was not in compliance with Chapter 30B of the General Laws (the Uniform Procurement Act) because it had not sought verbal or written quotes for the procurement of supplies or equipment totaling between \$5,000 and \$25,000, did not properly maintain a procurement log for all purchases of \$5,000 or more, and had disposed of old equipment without declaring it surplus.

Our follow-up review determined that the Authority has strengthened its purchasing procedures and is seeking written or verbal quotes as required, maintaining a

procurement log, and following the requirements of Chapter 30B when disposing of surplus equipment.

3. CONTROLS OVER FURNITURE AND EQUIPMENT

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Our prior audit determined that the Authority did not maintain an adequate system to control its inventory of furniture and equipment. The audit noted that several large purchases, including telephone equipment costing \$1,872 and a new copier costing \$5,700, were not tagged and entered into the Authority's inventory system. In addition, several other items of furniture and equipment could not be traced to the Authority's inventory cards. The prior audit also determined that surplus items of no further use were not removed from the General Ledger, and that discrepancies existed between the purchase price listed on the inventory cards and the amounts listed as paid on the purchase invoice.

Our follow-up review determined that the Authority was in the process of implementing new inventory control procedures, including conducting an inventory of its furniture and equipment, updating all General Ledger accounts that control furniture and equipment, and tagging all furniture and equipment.

4. TELECOMMUNICATION EXPENSES

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Our prior audit determined that the Authority's telephone and cell phone expenses totaled \$5,321 during the fiscal year ended June 30, 2003, which exceeded the budgeted amount by \$3,421. In addition, the Authority spent a total of \$1,113 for pager services during this period. The Authority's combined telephone and pager expenses totaled \$6,434 during fiscal year 2003, or \$536 per month.

Our follow-up review determined that the Authority's telephone and cell phone expenses amounted to \$7,693 during the fiscal year ended June 30, 2005, which exceeded the budgeted amount by \$413. The Authority's management team has worked with the Authority's telephone service provider to reduce the number of phone lines available to the Authority. In addition, the Authority is seeking DHCD's support in modifying its budget for telephone expenses to reflect the amounts needed to pay for telephone lines to operate alarms in the Authority's buildings and elevators that are not currently reflected in the budget.

5. PAYROLL EXPENDITURES FOR THE FORMER EXECUTIVE DIRECTOR

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Our prior audit noted that the Authority's former Executive Director was terminated on February 21, 2003 and that on the following day, the Authority's board authorized a payment of \$6,394 for 41 unused vacation days that the former Executive Director claimed was owed to him. We found that the appropriateness of this payment could not be determined because the former Executive Director took his time and attendance records with him when he was terminated.

Our follow-up review determined that the Authority's board has adopted procedures to ensure that documentation is reviewed and retained prior to payment in order to substantiate all payroll expenditures and that no Authority records are removed from the premises.

6. PREPARATION OF IRS FORM 1099-MISC INCOME INFORMATION FOR CERTAIN AUTHORITY CONTRACTORS **7**

Our prior audit determined that the Authority did not issue Internal Revenue Service (IRS) Form 1099-MISC to four contractors who were paid \$18,174 for their services in calendar year 2002. For each contractor paid more than \$600 during a calendar year, IRS regulations require entities to prepare and file with the IRS a 1099-MISC form that details the contractor's name, federal reporting number, and amount paid.

Our follow-up review revealed that, as a result of our prior recommendation, the Authority's new management team prepared and filed 1099-MISC forms for all applicable contractor payments.

7. PREPARING VACANT UNITS FOR OCCUPANCY **7**

Our prior review of the Authority's vacant unit turnaround time disclosed that the Authority lost the opportunity to earn potential rental income net of repair costs because it did not prepare and fill vacated units within DHCD's guidelines. DHCD considers 21 days to be a reasonable time frame for reoccupying vacant units.

Our follow-up review determined that during the current audit period, the Authority prepared vacant units for occupancy in a reasonable time frame as defined by DHCD guidelines.

SUBSEQUENT EVENTS **8**

The Authority informed us that on December 15, 2005 its board met with the Barnstable Housing Authority to terminate the services of its Housing Management Specialist for inappropriate practices.

INTRODUCTION

Background

The Sandwich Housing Authority manages 61 units of state-subsidized housing and 28 federally funded Section 8 vouchers. In addition, the Authority entered into an agreement with The Community Builders, Inc. (TCB) to develop affordable housing on a 10-acre parcel of land that the Authority owns. This development was to be substantially funded through tax credits awarded to TCB by the Department of Housing and Community Development (DHCD). The credits were then sold for \$3.3 million and used to offset the bulk of the project's \$4 million cost. The Authority is responsible for administering the day-to-day operations of the 36-unit development, which was completed and occupied by tenants during June 2003. The Authority and the developer were unable to agree upon the terms of a management contract, and the relationship to manage the development terminated in June 2004.

On February 21, 2003 the Authority's Board of Commissioners met in executive session to discuss the contents of a letter from DHCD regarding its review of circumstances surrounding several harassment complaints filed by tenants against the Authority's Executive Director. On March 11, 2003, the Authority's Board of Directors voted to contract with the Barnstable Housing Authority (BHA) for management services for a term of six months. The management agreement calls for a reimbursement equal to the gross salary of the previous Executive Director, to be paid on a bi-weekly basis. In addition, the management agreement called for the creation of a part-time Housing Management Specialist position, which was budgeted for 20 hours and a salary of \$20,400 during fiscal year 2005. The BHA, which was reimbursed \$32,572 during fiscal year 2005, is responsible for recreating and updating records, files, and computer systems; preparing and filing reports; and developing operating procedures for the Authority. The Authority's board indicated that it entered into this contract in recognition of the experience of the BHA's staff and the stability of the BHA's operations.

During our follow-up review, the Authority voted to extend the management contract with the BHA through December 31, 2005. DHCD has authorized a budget of \$18,200 for BHA management services, which are also paid for by the Authority's Section-8 program and its private market development (Osprey Lane).

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 Authority for the period July 1, 2003 through June 30, 2005. 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 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 tenants' 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.
- 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.
- 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.
- 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 that 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. 2003-0771-11A), which covered the period July 1, 2002 through June 30, 2003.

Our tests in the above-mentioned areas disclosed no material weaknesses.

Based on our review, we have concluded that, during the 24-month period ended June 30, 2005, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested. In addition, as discussed in the Audit Results section, our follow-up review indicated that five of the seven issues disclosed in our prior report had been adequately resolved.

AUDIT RESULTS

STATUS OF PRIOR AUDIT RESULTS

1. ADMINISTRATION OF VOUCHER PROGRAM

Our prior audit reported as Supplemental Information that the Department of Housing and Urban Development (HUD) had performed a Section Eight Management Assessment Program (SEMAP) review of the Authority's administration of its voucher program. This review, which assesses 14 key indicators of a public housing authority's performance, determined that the Authority's utilization of its Section 8 certificates was less than 95% for fiscal years 2001 and 2002. This SEMAP score resulted in HUD's categorizing the Authority as a so-called "Troubled Housing Authority." Moreover, the HUD review noted several other deficiencies, including a lack of rent reasonableness survey, incomplete rent recertification packets, and no requests for third-party verification of tenant income.

During our prior audit, we discussed this issue with the Authority's then-new management team, which explained that the Authority had not achieved the 95% lease-up rate for fiscal years 2001 and 2002 because the Authority was holding certificates for use within Osprey Lane, its private market development. The Authority indicated that it expected utilization to be near 100% for its 28 units during fiscal year 2004. The new management team submitted a corrective action plan to HUD and indicated that it planned to conduct a rent reasonableness survey of its Sandwich property owners in order to develop a new assessment system.

We also noted that during September 2002, HUD performed a Rental Integrity Monitoring (RIM) of the Authority's tenant files and noted several violations, including a lack of third-party verification of tenant income, inadequate documentation for adjustments to income and changes in housing programs, and a lack of rent reasonableness tests. In a letter dated June 25, 2003, the Authority's management team detailed a corrective action plan that it proposed to address the findings of the RIM review.

Our follow-up review determined that the corrective action plan has been implemented and that a HUD review team has performed an on-site review of the Authority's operations. Moreover, during our follow-up review the Authority received notice from HUD that based on the results of its review, HUD was removing the Authority from its "Troubled Housing Authority" list.

2. COMPLIANCE WITH STATE PROCUREMENT LAW

Our prior audit determined that the Authority was not in compliance with Chapter 30B of the General Laws (the Uniform Procurement Act). Specifically, the Authority had not sought verbal or written quotes for the procurement of supplies or equipment totaling between \$5,000 and \$25,000; did not maintain a procurement log for all purchases of \$5,000 or more and retain this information for six years from the date of final payment; and disposed of old equipment without declaring it surplus, reselling it through public auction or competitive sealed bids, or trading it in for new copy equipment.

Our follow-up review determined that the Authority has strengthened its purchasing procedures and is seeking written or verbal quotes as required, maintaining a procurement log, and complying the requirements of Chapter 30B when disposing of surplus equipment.

3. CONTROLS OVER FURNITURE AND EQUIPMENT

Our prior audit determined that the Authority did not maintain an adequate system to control its inventory of furniture and equipment. Specifically, several large equipment purchases, including telephone equipment costing \$1,872 and a new copier costing \$5,700, were not tagged and entered into the Authority's inventory system. In addition, several other items of furniture and equipment could not be traced to Authority inventory cards. Our prior report also found that surplus items of no further use were not removed from the General Ledger, and that discrepancies existed between the purchase amounts listed on the inventory cards and the price listed as paid on the purchase invoice.

Our follow-up review determined that the Authority was in the process of implementing new inventory control procedures, including conducting an inventory of its furniture and equipment, updating all General Ledger accounts that control furniture and equipment, and tagging all furniture and equipment. However, our inventory test determined that the Authority could not locate eight of 35 furniture and equipment items.

Recommendation

The Authority should attempt to locate the eight missing inventory items, continue to tag all of its furniture and equipment, update its inventory records, perform an annual physical inventory of its furniture and equipment, and compare the physical inventory to its inventory records.

4. TELECOMMUNICATION EXPENSES

Our prior audit determined that the Authority's telephone and cell phone expenses totaled \$5,321 during the fiscal year ended June 30, 2003, which exceeded the budgeted amount by \$3,421. In addition, the Authority spent a total of \$1,113 for pager services during this period. The Authority's combined telephone and pager expenses totaled \$6,434 during fiscal year 2003, or \$536 per month.

Our follow-up review determined that the Authority's telephone and cell phone expenses including payment for phone lines to operate alarms in the Authority's buildings and phone lines for the Authority's office, amounted to \$7,693 during the fiscal year ended June 30, 2005, which exceeded the budgeted amount by \$413. The Authority's management team has worked with the Authority's telephone service provider to reduce the number of phone lines available for the Authority's use. In addition, the Authority is seeking DHCD's support in modifying its budget for telephone expenses to reflect the amounts needed to pay for telephone lines to operate alarms in the Authority's buildings and elevators that are not currently reflected in the budget.

Recommendation

The Authority should include in its budget request the amounts paid for telephone lines to operate alarms in the Authority's buildings and elevators that are not currently reflected in the budget.

5. PAYROLL EXPENDITURES FOR THE FORMER EXECUTIVE DIRECTOR

Our prior audit noted that the former Executive Director of the Authority was terminated on February 21, 2003, and that on the following day, the Authority's board authorized a payment of \$6,394 for 41 unused vacation days that the former Executive Director claimed was owed to him. We found that the appropriateness of this payment could not be determined because the former Executive Director had taken his time and attendance records with him when he was terminated.

Our follow-up review determined that the Authority's board has adopted procedures to ensure that documentation is reviewed and retained prior to payment in order to substantiate all payroll expenditures and that no Authority records are removed from the premises.

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Our prior audit determined that Authority had not issued Internal Revenue Service (IRS) 1099-MISC income information forms to four contractors who were paid \$18,174 for their services in calendar year 2002. For each contractor paid over \$600 during a calendar year, IRS regulations require entities to prepare and file a 1099-MISC form that details the name of each individual contractor, the contractor's federal reporting number, and the amount paid to the contractor.

Our follow-up review revealed that as a result of our recommendation, the Authority's new management team prepared and filed 1099-MISC forms for all applicable contractor payments.

7. PREPARING VACANT UNITS FOR OCCUPANCY

Our prior review of the Authority's vacant unit turnaround time disclosed that the Authority may have lost the opportunity to earn potential rental income net of repair costs because it did not prepare and fill vacated units within DHCD's guidelines. DHCD considers 21 days to be a reasonable time frame for reoccupying vacant units.

Our follow-up review disclosed that during the current audit period, the Authority prepared vacant units for occupancy in a reasonable amount of time as defined by DHCD guidelines.

Auditee's Response

In response to our report, the Authority acknowledged the audit results cited therein and indicated that it has taken steps to implement the recommended corrective actions.

SUBSEQUENT EVENTS

On December 15, 2005, the Sandwich Housing Authority (SHA) and Barnstable Housing Authority (BHA) boards met in a joint session to hear evidence of wrongdoing by the SHA's Housing Management Specialist. The members of the BHA were in attendance because BHA has a management contract with SHA and the individual involved also works for BHA. The boards heard evidence of theft, misappropriation of assets, violations of the state's Conflict of Interest Law (Chapter 268A of the Massachusetts General Laws) and violations of the state's Code of Conduct regulations (760 CMR 4.04[I]). The boards also heard a response from the individual.

The allegations included removing a kitchen faucet from the SHA inventory and directing a SHA maintenance man to install the faucet at her home, directing a maintenance man to purchase fencing and installing it at her home, directing a maintenance man to install flooring at her home, misappropriating SHA equipment for use at her home, and performing homemaking duties for SHA tenants during her work hours. In addition, numerous problems with her performance as SHA's Housing Management Specialist were discussed.

After separate deliberations and in separate votes, the board of the Sandwich Housing Authority and the board of the Barnstable Housing Authority voted to terminate the employment of the individual.

The BHA Management Team performed a review of the tasks performed by the Housing Management Specialist and noted that a number of the tenants files reviewed contained information that was not current or accurate. The BHA Management Team and SHA employees have reviewed and updated all tenant files.

In a letter dated October 30, 2006, the Authority indicated that it "appreciated the continuation of the audit to review this matter and understands this delayed the release of the audit."