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INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
TYNGSBOROUGH HOUSING AUTHORITY
MARCH 1, 2005 TO MAY 31, 2007

OFFICIAL AUDIT
REPORT
FEBRUARY 7, 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 Tyngsborough Housing Authority for the period March 1, 2005 to May 31, 2007. 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. 2005-1072-3A). Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of the report, during the 27-month period ended May 31, 2007, 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 (No. 2005-1072-3A) of the Tyngsborough Housing Authority, which covered the period September 1, 2002 to February 28, 2005, disclosed deficiencies in the areas of inventory controls, unallowable expenditures, and incorrect rent calculations. Our follow-up review noted that the Authority has taken corrective action to address these issues.

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Our review of the Authority's annual operating budgets for state-aided programs noted that the Authority had not made timely submissions of their operating budgets to DHCD for fiscal year 2008. According to DHCD budget guidelines dated October 2006, Authorities with an April 1 - March 31, 2008 fiscal year were required to submit operating budgets no later than March 1, 2007. We found that as of September 1, 2007, five months into the Authority's fiscal year and six months after the specified due date, the Authority had not submitted operating budgets to DHCD for approval. In addition, we noted that the Authority had increased administrative salaries in April 2007, even though these increases were not allowable until the Authority's operating budget was approved by DHCD. In its response, the Authority indicated that it has submitted and DHCD has subsequently approved its fiscal year 2008 budgets.

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 Tyngsborough Housing Authority for the period March 1, 2005 to May 31, 2007. 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.

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 units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- 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 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 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 report (No. 2005-1072-3A).

Based on our review, we have concluded that, except for the issue addressed in the Audit Results section of this report, during the 27-month period ended May 31, 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. 2005-1072-3A) of the Tyngsborough Housing Authority, which covered the period September 1, 2002 to February 28, 2005, disclosed deficiencies in the areas of inventory controls over furniture and equipment, unallowable expenditures, and incorrect rent calculations. Our follow-up review covering the 27-month period ending May 31, 2007 noted that the Authority has taken corrective action to address these issues, as discussed below.

a. Inventory Controls Over Furniture And Equipment

Our prior audit revealed the Authority had not established an adequate inventory control system for furniture and equipment as prescribed in DHCD's Accounting Manual for State-Aided Housing Programs. Specifically, the Authority did not have a complete listing of its furniture and equipment, did not properly tag all of its furniture and equipment with an assigned asset number, had not taken an annual physical inventory for several years, and did not properly record new purchases or account for the disposal of inventory items. Accordingly, our prior report recommended that the Authority comply with DHCD's requirements by establishing a complete inventory listing, tagging all items, conducting an annual physical inventory, and converting fixed assets to Generally Accepted Accounting Principles (GAAP), as required by DHCD.

During our follow-up review, we found that the Authority has implemented our prior recommendations and is now in compliance with DHCD's requirements pertaining to inventory controls.

b. Expenditures

Our prior review of expenditures for the period September 1, 2002 to February 28, 2005 disclosed a total of \$1,695 in unallowable expenditures. The Authority had expended funds for items such as holiday parties, cell phone rentals, and flowers that are unallowable under DHCD budget guidelines. DHCD regulations do not allow for expenses that include any item or activity prohibited by law, including political or religious contributions and recreational or social events.

During our follow-up review, we found that the Authority has resolved this issue by funding such activities from alternative sources, such as donations from businesses and residents.

c. Rent Calculations

Our prior review of the Authority's Massachusetts Rental Voucher Program (MRVP) revealed that rental amounts were not calculated accurately, and that the Authority was not in compliance with 760 Code of Massachusetts Regulations 49.05(5), which requires that participants pay a minimum of 30% of net household income toward their share of the contract rent if the participant pays separately for the cost of heat. Incorrect rental calculations by both the former and current Executive Directors resulted in the Authority overpaying Housing Assistance Payments (HAP) by a total of \$4,376 through July 2005. We recommended that the Authority calculate MRVP rent determinations accurately and in accordance with DHCD regulations.

During the course of our current review, the Executive Director re-calculated the tenant rent and HAP payment, and a new certification was implemented effective August 2007. The Authority is now in compliance with DHCD regulations regarding MRVP rent determinations.

2. NONCOMPLIANCE WITH DHCD BUDGET GUIDELINES

Our review of the Authority's annual operating budgets for state-aided programs noted that the Authority had not made timely submissions of their operating budgets to DHCD for fiscal year 2008. According to the DHCD budget guidelines dated October 2006, Authorities with an April 1 - March 31, 2008 fiscal year were required to submit operating budgets no later than March 1, 2007. We found that as of September 1, 2007, five months into the Authority's fiscal year and six months after the specified due date, the Authority had not yet submitted operating budgets to DHCD for approval. The budget guidelines define the Authority's budget as the financial plan that describes how the Authority will be financed during the coming year. The budget is the basic document through which housing authorities' plans for their use of public funds is conveyed to state and federal agencies, to authority residents, to the public, and most importantly, to the authorities themselves. In the absence of operating budgets, the Tyngsboro Housing Authority did not have a mechanism to adequately monitor performance through meaningful periodic budget versus actual comparisons. Moreover, without an approved budget, the Authority was not in compliance with DHCD regulations.

The budget is an essential tool for management; the document through which the Authority's financial resources are managed. The budget establishes the maximum amount to be spent on any particular line item, on any particular program, and within a particular period of time (usually

one year). The budget guidelines further state, “Until such time that the [Local Housing Authority] LHA has received an approved budget, it is authorized to spend at a level no greater than the prior fiscal year’s approved level, less any one-time exemptions. No new expenditures for additional staffing or salary increases may be made until the new budget has been formally approved by DHCD.” Contrary to this guideline, our review of payroll noted an increase of 7% in administrative salaries as of April 1, 2007, the beginning of the Authority’s fiscal year. DHCD’s budget guidelines did allow for an increase of 7% over the prior year’s approved administrative salary line item; however, expenditures for this increase should not have been paid until the Authority’s operating budgets were approved by DHCD.

The Authority’s management stated that the delay was mainly due to their uncertainty as to when four vacant congregate units at one of their elderly sites would be occupied, and the inability to estimate the amount of revenue to be generated by these units upon occupancy in May 2007. The Authority intends to formally approve its proposed state-aided operating budgets at the next Board of Directors meeting, and will subsequently submit the approved budgets to DHCD for approval.

RECOMMENDATION

The Authority should prepare and submit its state-aided operating budgets to DHCD in accordance with DHCD budget guidelines and should not implement salary increases for the next fiscal year prior to DHCD approval.

Auditee’s Response:

In response to this issue, the Executive Director stated that:

The Authority submitted, and DHCD subsequently approved fiscal year 2008 budgets. In the future, the state-aided operating budgets will be prepared and placed on the Authority’s [board meeting] agenda each February for approval and submission to DHCD.