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INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
TYNGSBOROUGH HOUSING AUTHORITY  
OCTOBER 1, 2001 TO AUGUST 31, 2002

OFFICIAL AUDIT  
REPORT  
APRIL 29, 2003

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At the request of the Department of Housing and Community Development and the Board of Directors of the Tyngsborough Housing Authority, the Office of the State Auditor conducted an audit of certain activities of the Authority for the period October 1, 2001 to August 31, 2002. The objectives of our audit were to assess the adequacy of the Authority's management control system for cash receipts and payroll expenditures. Our audit found that (1) a rent payment made in cash was not deposited into an Authority account and is still outstanding; (2) unauthorized payments were made to the Authority's Executive Director; and (3) unauthorized purchases were made with an Authority credit card.

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## INTRODUCTION

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

At the request of the Department of Housing and Community Development (DHCD) and the Board of Directors of the Tyngsborough Housing Authority, the Office of the State Auditor conducted an audit of certain activities of the Authority for the period October 1, 2001 to August 31, 2002.

The objectives of our audit were to assess the adequacy of the Authority's management control system for cash receipts and payroll expenditures.

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:

- Accounts receivable procedures, to verify that collections were timely and uncollectible tenants' 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
- Cash management practices and expenditures, to determine whether cash receipts were deposited and expenditures were properly supported and recorded

Based on our review, we have concluded that a cash receipt in the amount of \$1,050 was never deposited into the Authority's bank account and that expenditures totaling \$6,045 were of a questionable nature, as discussed in the Audit Results section of this report. The results of this review will be referred to the appropriate oversight agencies.

## AUDIT RESULTS

At the request of the Department of Housing and Community Development and the Board of Directors of the Tyngsborough Housing Authority, we performed a limited review of certain activities involving the Authority's Executive Director for the period October 2001 to August 2002. After being placed on administrative leave with pay, the Executive Director resigned her position on August 26, 2002. Our audit findings are reported in the following sections.

### **1. CASH RENT PAYMENT DEPOSITED INTO EXECUTIVE DIRECTOR'S PERSONAL BANK ACCOUNT**

In December 2001, a tenant made a \$1,050 cash rent payment to the Authority which was not deposited into an Authority account. In January 2002, the Executive Director informed the Executive Secretary that the cash had been deposited by mistake into her personal bank account. The Executive Director issued a personal check (number 443) dated January 3, 2002, for \$1,050, to the Authority which was not deposited into an Authority account until February 13, 2002. However, the bank returned the personal check due to insufficient funds and added a bank charge of \$10.

During our audit, we reviewed the Authority's receipt book and could not find a receipt indicating the tenant's name and the \$1,050 cash received. We noted, however, that one page of the receipt book had a missing receipt. Receipt number 0193 was filled out on December 17, 2001; receipt number 0194 was missing; and receipt number 0195 was filled out on January 3, 2002. The Authority has requested that the tenant who paid in cash bring in the rental-payment receipt, but as of April 24, 2003 the tenant has been unable to locate it.

#### ***Recommendation***

The Authority should pursue recovery of the missing \$1,050 from the former Executive Director. It should also review its internal control procedures and require that all cash be deposited into its account in a timely manner, without allowing the cash to be replaced by an employee's personal check. The Authority's Board should institute controls to ensure the physical integrity of its cash receipt book.

***Auditee's Response***

The Authority elected not to respond to this finding.

***Auditor's Reply***

We stress that the Authority should pursue recovery of the missing \$1,050 from the former Executive Director. It should also review its internal control procedures and require that all cash be deposited into its account in a timely manner, without allowing the cash to be replaced by an employee's personal check. This matter should be reported to the proper legal authorities.

**2. UNAUTHORIZED PAYMENTS TO THE AUTHORITY'S EXECUTIVE DIRECTOR**

During our prior audit of the Authority, which covered the period April 1, 2000 through September 30, 2001, we noted that the Authority was assisting in the development of a nonprofit partnership, the Tyngsborough Community Housing Partnership (TCHP). The Housing Authority and the Town of Tyngsborough established TCHP to create new affordable housing so that the town could meet its obligations under Chapter 40B of the Massachusetts General Laws. TCHP was to be comprised of two Authority representatives, two community representatives, a member of the Board of Selectmen, a local bank representative, and a legal advisor. The Town of Tyngsborough was to fund TCHP with \$5,000, and the Authority was to advance another \$5,000 in addition to providing office space for nonprofit-related business until TCHP was fully established. The Executive Director of the Authority was to serve as the Executive Director of TCHP. As of our audit date, TCHP had no funds and therefore no bank accounts.

During our review, we received minutes of meetings from both the Authority and TCHP and a draft copy of a contract covering compensation to the Executive Director for TCHP-related work.

Our audit of the Authority revealed seven unauthorized payments to the Executive Director totaling \$5,175, as follows:

Check Number	Check Date	Amount	Signature*
8842	04/18/2002	\$ 810.03	TCHP Board Member
8884	05/07/2002	2,000.00	Authority Board Member/Executive Director
8885	05/07/2002	500.00	Authority Board Member/Executive Director
9000	07/03/2002	1,160.64	TCHP Board Member/Executive Director
9015	07/26/2002	301.68	Executive Director
9050	07/31/2002	100.56	TCHP Board Member/Executive Director
9062	08/15/2002	<u>301.68</u>	TCHP Board Member/Executive Director
Total		<u>\$5,174.59</u>	

\* Rubber Stamp used for Authority Board member's signature.

The seven checks were paid out of the Authority's management checking account but were not authorized by the Board of Directors. According to the original signatory card on file at the bank, dated March 1, 1990, there are six authorized signatures on the Authority's checking account, one of which is the former Executive Director's. The local bank representative who is a member of TCHP signed four of the checks but is not a member of the Authority or an authorized signatory on the account. According to the Authority's practice, two signatures are required on each Authority check; however, the bank requires only one authorized signature to make payment on checks.

Two of the seven questionable checks (numbers 8884 and 8885, totaling \$2,500) were signed by the Executive Director and also stamped with a signature stamp that an Authority Board Member had made but did not like and therefore never used. The rubber stamp was stored in the THA main office, under the supervision of the Executive Director. That Board Member confirmed that she did not use her signature stamp to sign the two checks. The two canceled checks were returned with the bank statements, used in the reconciliation process, and filed with the bank statement, as is the Authority's procedure. When the question of the use of the Board Member's signature stamp was brought to the attention of the Board of Directors, the canceled checks were found missing from the file. When the Authority requested and received copies of these checks from its bank, it became clear that a signature stamp had been used.

The draft copy of a contract being prepared by TCHP indicated that it would pay the Executive Director \$100.56 for four hours of work per week. Through August 31, 2002, the TCHP Board of Directors had not approved the contract, which would have been effective as of July 2, 2002. The Executive Director's contract with the Authority stated that the Executive Director would work 26 hours per week for the Authority. In the following table, the amounts of the questionable checks have been divided by that weekly rate in order to project the potential number of TCHP workweeks for which the check amounts might be considered as payment. Checks for periods prior to July 2, 2002, totaling \$4,470.67, should not have been paid, since they cover periods prior to the proposed contract. There were no negotiations for retroactive payments prior to July according to members of TCHP's Board. The last three checks, totaling \$703.92, would fall within the period of the proposed contract.

Check Number	Check Date	Amount	Projected TCHP Workweeks
8842	04/18/2002	\$ 810.03	8.06
8884	05/07/2002	2,000.00	19.89
8885	05/07/2002	500.00	4.97
9000	07/03/2002	<u>1,160.64</u>	<u>11.54</u>
	Total for Pre-Contract Period	<u>\$ 4,470.67</u>	<u>44.46</u>
9015	07/26/2002	\$ 301.68	3.00
9050	07/31/2002	100.56	1.00
9062	08/15/2002	<u>301.68</u>	<u>3.00</u>
	Total for Contract Period	<u>\$ 703.92</u>	<u>7.00</u>

We were informed by the Authority's Board of Directors that they verbally agreed to allow the Executive Director to spend four of her weekly 26 hours on setting up TCHP. The Executive Director's July 3, July 9, and July 23, 2001 weekly payroll forms indicated four hours of work completed for TCHP. No other payments from Authority funds had been approved for TCHP work.

We discussed the first three checks listed in the table (number 8842 for \$810.03, number 8884 for \$2,000.00, and number 8885 for \$500) with the Fee Accountant. He stated that when he was posting the activity to the Authority's general ledger, since there had been no explanation or supporting documentation with the checks, he asked the Executive Director the purpose of the checks and she informed him that they were for services rendered to TCHP. The Fee Accountant booked the three checks as an accounts receivable on the Authority's general ledger and as an accounts payable on the TCHP general ledger. The next two checks listed, number 9000 for \$1,160.64 and number 9050 for \$100.56, had no supporting documentation available for review. Check number 9015, for \$301.68, covered the period July 8 to July 29, 2002 at four hours per week, and check number 9062 for \$301.68 covered the period July 29 to August 16, 2002.

The Authority's bookkeeper noticed at the end of August that all entries posted to the Authority's QuickBooks records had been deleted from the QuickBooks general ledger. Checks dated after July 3, 2002 and up to August 26, 2002 had been deleted, including three of the checks in question (numbers 9015, 9050, and 9062).

***Recommendation***

- The Authority should review its policy for the use of signatory stamps and closely regulate their use.
- Before checks are mailed, a final review should be made to ensure that the checks have authorized Authority personnel signatures.
- The Authority should not approve the use of Authority work hours for TCHP-related work. The weekly four hours approved by the board of directors to pay the Executive Director for TCHP-related work would result in the Executive Director's receiving duplicative payments from the Authority and TCHP.
- Only authorized personnel should have access to the Authority's QuickBooks to post to its general ledger and create disbursement checks within it. Access to accounting data on QuickBooks should be limited to the appropriate personnel via computer passwords and office locks.
- The Authority should seek reimbursement from the former Executive Director and TCHP for the checks written from Authority accounts for TCHP-related work.



- The Authority should also consider taking action against the TCHP member who signed Authority checks although she did not have authorization to do so.

***Auditee's Response***

- *The Authority has disposed of the signatory stamp that was to be utilized only by a visually impaired board member.*
- *The Authority has our treasurer sign all checks prior to mailing. The Board has directed the new Executive Director not to release any checks without the proper signature of a Board member. Note: The Executive Director's name has been removed from the Authority's bank checking accounts.*
- *The Authority's intent was never to duplicate pay the Executive Director for TCHP services during Housing Authority business hours. The Board was negotiating a contract with the Executive Director beginning on July 1, 2002 that would pay her 4 hours per week for work related to the TCHP program.*
- *The Executive Director is directly responsible for and has access to the Authority's QuickBook records. A secure password only known by the Executive Director has been established to access the information in this software.*
- *The Authority will forward the final Audit Report to the Local District Attorney's Office for review and final determination of action(s) to be implemented.*
- *The Authority and the TCHP have discussed the actions of the TCHP's member who signed checks without authority to do so and the parties have agreed to cease this unwarranted practice.*

***Auditor's Reply***

The Authority's actions are a positive step in addressing the issues disclosed in this finding. However, they should seek reimbursement from TCHP for all unauthorized payments from Authority funds.

**3. UNAUTHORIZED PURCHASES WITH AN AUTHORITY CREDIT CARD**

On October 15, 2001, using the Authority's Home Depot credit card, the Executive Director purchased two space heaters for a total of \$798. During the Board of Directors' monthly review of the credit card statement, no backup documentation was available for that purchase. The Executive Director informed the Authority that the heaters were for her personal use. The Authority refused to pay for the heaters and carried a past-due balance of \$798 plus late fees (a total of \$831.78 as of July 1, 2002) since the purchase in October 2001.

This situation had a negative effect on the Authority's credit, and Home Depot froze the Authority's charge account because of the nonpayment.

Home Depot did receive two personal checks as payment for the heaters; however, both checks were returned due to insufficient funds. Home Depot faxed a copy of these two checks to the Authority. One check, dated June 1, 2002 for \$831.78 was from the Executive Director. The other check, dated July 23, 2002 for \$831.78, was from an acquaintance of the Executive Director. According to the Authority's bookkeeper, Home Depot finally received payment for the heaters from the former Executive Director and as a result reinstated Authority's charge account in September 2002.

We reviewed additional Home Depot charge account purchases, and found that the Authority inadvertently paid \$72.61 for the purchase of a carpet not intended for Authority use. The Executive Director had purchased the carpet on October 22, 2001. The Authority's Board had overlooked this purchase when reviewing the Home Depot bill.

***Recommendation***

The Authority should seek reimbursement for \$72.61 from the former Executive Director. Any future credit card purchases should be closely reviewed prior to payment to ensure that only Authority-related purchases have been charged. The Authority should also revise its policies, clearly stating that its credit card should be used only for Authority-related purchases.

***Auditee's Response***

*When the Authority became aware of the Home Depot credit card account misuse by the Executive Director, we directly passed a management by-law procedure (during our July 2002 meeting), requiring an Authority credit card could not be used by an employee for personal benefit.*

***Auditor's Reply***

A by-law will not be of any value unless the Authority's Board members review the monthly statements to ensure that all purchases were related to Authority business. This should be part of their activity when approving vouchers for payment.