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INDEPENDENT STATE AUDITOR'S REPORT

ON CERTAIN ACTIVITIES OF THE

WESTBOROUGH HOUSING AUTHORITY

APRIL 1, 2001 TO JUNE 30, 2003

**OFFICIAL AUDIT
REPORT
DECEMBER 30, 2003**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain activities of the Westborough Housing Authority for the period April 1, 2001 to June 30, 2003. 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 evaluate its compliance with laws, rules, and regulations applicable to each program. In addition, we reviewed the Authority's progress in addressing our prior audit results.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS UNRESOLVED: NONCOMPLIANCE WITH RENT REDETERMINATION PROCEDURES

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Our two prior audits of the Westborough Housing Authority (No. 99-0809-3 and No. 2001-0809-3) found that improvements were needed in the annual rent determination process for the Authority's tenants. Specifically, we noted that tenant files did not contain signed lease addendums and lacked supporting documentation for income and deductions. Our follow-up review of tenant files revealed that the Authority is still in noncompliance with 760 Code of Massachusetts Regulations (CMR) 6.00, which requires that annual rent redeterminations be performed. During our follow-up review, we tested 26 files and found that 11 files lacked signed lease addendums and nine lacked adequate supporting documentation for income or deductions. In addition, three tested files indicated that rents had not been redetermined annually. We also noted that 14 of the 26 tenant files did not document whether the units had been inspected during the current fiscal year.

2. EXCESSIVE TENANT ACCOUNTS RECEIVABLE BALANCES

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Our audit of the Authority revealed excessive tenant accounts receivable balances, which totaled \$25,165 as of May 31, 2003. Of that amount, \$13,132 was more than 90 days overdue; \$2,042, 60-90 days; \$3,491, 30-60 days; and \$6,500, 1-30 days. The \$6,500 receivable represented uncollected May rents and amounted to approximately 24% of the May rent roll. We found no indication that the Authority is adequately tracking or attempting to collect past-due rents as required by the Department of Housing and Community Development (DHCD) accounting manual and the Authority's own rent collection policy, which states that rent is due on or before the fifth of each month, and that failure to pay rent could result in eviction. Because the Authority's former Executive Director resigned on June 16, 2003, immediately prior to our audit start date, the reasons for the excessive accounts receivable balances could not be determined. In response to our audit, the Authority's current Executive

Director indicated that the Authority has established procedures to collect unpaid rents and reduce the excessive tenant accounts receivable balances.

3. EXCESSIVE VACANCIES, NONCOMPLIANCE WITH DHCD REGULATIONS **5**

Our audit revealed that the Authority lost the opportunity to earn approximately \$13,460 in potential rental income during the audit period from state-aided housing programs because vacated units were not reoccupied within the timeframe established by DHCD. Our audit revealed that 17 units were vacant for periods of 44 to 395 days, with the potential rental income loss per unit ranging from \$111 to \$3,381. DHCD requires that a vacant unit be filled within 21 working days after the previous tenant has vacated. Moreover, the current Executive Director stated that one unit, which had been vacant from August 2002 until March 2003, was not reoccupied because the maintenance man had been using it for personal use without paying rent. Immediately prior to our audit start date, the former Executive Director and maintenance man resigned; therefore, the reason for the extended vacancy could not be determined. In response to this issue, the current Executive Director indicated that the Authority was in the process of reducing excessive vacancies by increasing maintenance staff time to repair and prepare vacant units for occupancy.

4. NONCOMPLIANCE WITH INTERNAL REVENUE SERVICE REGULATIONS REGARDING FORM 1099 **7**

Our audit revealed that the Authority did not issue Internal Revenue Service (IRS) Form 1099 to all unincorporated tradesmen who received over \$600 for their services. Specifically, six tradesmen who received between \$1,285 and \$41,417 during the period January 1, 2001 to December 31, 2001 were not issued Form 1099. Additionally, four tradesmen who received between \$1,080 and \$12,756 during the period January 1, 2002 and December 31, 2002 did not receive Form 1099. Furthermore, the Authority does not maintain a W-9 vendor file. In response to our audit, the current Executive Director indicated that the Authority has begun issuing W-9 forms to all vendors and that it will issue Form 1099 to all unincorporated vendors.

5. NONCOMPLIANCE WITH TENANT SELECTION PROCEDURES **7**

We found that the Authority did not comply with tenant selection procedures as required by DHCD regulations and 760 CMR 5.00. Our review of 21 tenants housed during the audit period found various shortcomings regarding tenant selection. Two tenants were housed before others who had lower control numbers, and the Authority could not provide adequate explanations or documentation for the advance placement. One tenant was over the income limit set by DHCD at the time of admission. Another tenant was classified as an emergency placement, but no documentation was available to support this priority classification. In addition, three tenant files could not be located for review. As a result of these shortcomings, there is inadequate assurance that housing applicants were properly selected. In response to this issue, the current Executive Director stated that the Authority was updating

its waiting list to ensure that all tenants are selected in compliance with DHCD regulations.

6. POTENTIAL CONFLICT-OF-INTEREST VIOLATIONS**8**

Our review found that, contrary to conflict-of-interest provisions in Chapter 268A, Section 23 (b) (3), of the General Laws, the Authority purchased a total of \$1,585 in used furniture from an antiques store owned by the Authority's maintenance employee. In addition, the Authority paid cash for a new truck in March 2003 but did not apply against that purchase the trade-in value of its 1993 Ford F250 pick-up truck, which was \$2,340 according to the Kelly Blue Book. Instead, the former Executive Director purchased the 1993 pick-up truck for \$650. When we discussed these matters with the Board of Directors, its members indicated that they were unaware that (1) the antiques store was owned by the maintenance man; (2) the former Executive Director was purchasing used furniture until the invoices were presented for payment; (3) the pick-up truck was not traded in when the new truck was purchased; (4) and the former Executive Director had purchased the old truck for \$650. During our audit, the Authority repossessed the truck, returned it to service, and returned its purchase price to the former Executive Director. In response to this issue, the current Executive Director stated that the parties involved no longer work at the Authority and that all Authority employees have been made aware of conflict-of-interest regulations.

7. MISSING SUPPORTING DOCUMENTATION**10**

During our review, we noted that the Authority could not locate four purchase invoices totaling \$4,129. The missing invoices were related to furniture purchases, one for \$1,285 from the antiques shop owned by the Authority's maintenance employee, two from another antiques shop for \$520 and \$1,000, and a fourth from a new furniture dealer for \$1,324. DHCD's accounting manual requires that a control system be established to properly record, classify, and accumulate accounting information. Because the former Executive Director had resigned, the reason for the missing invoices could not be determined. In response to this issue, the current Executive Director indicated that the Authority has reviewed and revised its internal control procedures to ensure that invoices are properly reviewed and filed.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Westborough Housing Authority for the period April 1, 2001 to June 30, 2003. 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 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 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's 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 that the Authority was complying with DHCD inspection requirements and 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'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

Based on our review, we have concluded that except for the issues addressed in the Audit Results section of this report, for the areas we tested the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations during the 27-month period ended June 30, 2003.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS UNRESOLVED: NONCOMPLIANCE WITH RENT REDETERMINATION PROCEDURES

Our two previous audits of the Westborough Housing Authority (No. 99-0809-3 and No. 2001-0809-3) found that improvements were needed in the Authority's annual rent determination process. Those audits noted that tenant files did not contain lease addendums and lacked supporting documentation for income and deductions. Those audits also noted that the Authority failed to redetermine rents on an annual basis, and they found computation errors as a result of which tenants were undercharged or overcharged rent.

The 760 Code of Massachusetts Regulations (CMR) 6.00 requires that annual rent determinations be performed for each tenant in a state-aided housing program and sets forth the income and expenses to be used in such rent determinations. In addition, the regulations require that every household occupying a state-aided public housing unit have a written lease for the dwelling executed by a responsible member of that household.

Our previous audits recommended that the Authority verify and recheck rent calculations to ensure that they were correct and consistent with supporting documentation contained in the tenants' files, and that each tenant's file had a signed lease addendum.

Our follow-up review, which covered the period of April 1, 2001 to June 30, 2003, revealed that the Authority is still not in compliance with 760 CMR 6.00. Specifically, our review of 26 tenant files revealed that 11 files did not have signed lease addendums. We also found that nine of the 26 files lacked adequate supporting documentation for income or deductions. Of these nine tenants, three were not given the elderly/handicapped deduction of \$400, resulting in an overcharge of \$10 per month. One tenant was given a miscellaneous deduction resulting in rent being \$70 less per month than it should have been. The remaining five files lacked documentation of the income amount used to determine the rental charge.

In addition, we found that three tenant rents had not been redetermined annually: one since 2000, the second since 2001, and the third since 2002. We also noted that 14 of the 26

tenant files did not document whether the units had been inspected during the current fiscal year.

Because the Authority's former Executive Director resigned on June 16, 2003, immediately before our audit engagement, we were unable to discuss with her why these shortcomings and errors occurred and why the Authority failed to comply with our prior audit recommendations.

Recommendation

The Authority should review all rent calculations to ensure that the proper rents are being charged. Lease addendums should be obtained for all tenants and retained in their files. The Authority should issue refunds to tenants who have been overcharged. Proper supporting documentation should be retained to document both income and deductions. Annual inspections should be documented in the tenant files.

Auditee's Response

The Westborough Housing Authority (WHA), with the approval of the Department of Housing and Community Development (DHCD), hired consultants... to assist the Authority in remedying the Auditor's findings. We have put into place procedures to comply with DHCD regulations for rent determination. All rents have been reviewed, lease addendums have been signed and are retained in tenant files, supporting documentation for both income and deductions are in all files now, and annual inspections will be documented in tenant files.

2. EXCESSIVE TENANT ACCOUNTS RECEIVABLE BALANCES

Our audit of the Authority revealed excessive tenant accounts receivable balances: a total of \$25,165 as of May 31, 2003. Of that amount, \$13,132 was more than 90 days overdue; \$2,042, 60-90 days; \$3,491, 30-60 days; and \$6,500, 1-30 days.

The Department of Housing and Community Development (DHCD) accounting manual governing tenant accounting states that housing authorities should adopt and comply with an aggressive rent-collection policy. Moreover, the Authority's rent-collection policy states

that rent is due on or before the fifth of each month, and that failure to pay rent could result in eviction.

Because of the former Executive Director's resignation, the reasons for the excessive tenant accounts receivable balances could not be determined. Our audit found that the tenant files did not indicate delinquent status based on past-due rents and that Notices of Lease Termination/Notices to Quit were not sent to tenants. Accounts receivable balances of fewer than 30 days, totaling \$6,500, accounted for 24% of the total May rent roll. This large amount indicates that the Authority was not aggressive in collecting rents. Tenant accounts receivable balances are less likely to be collected if not adequately pursued for collection in a timely manner. In response to our audit, the current Executive Director has been sending Notices to Quit to tenants who have delinquent balances.

Recommendation

The Authority should implement its written collection policy, aggressively pursuing the collection of delinquent tenants' accounts receivable balances. Tenants whose rents are overdue more than 30 days should be issued Notices to Quit, and legal proceedings should be started against them.

Auditee's Response

We have put into place procedures to collect the unpaid rents in the State-Aided Program and reduce the Excessive Tenants Accounts Receivable.

3. EXCESSIVE VACANCIES, NONCOMPLIANCE WITH DHCD REGULATIONS

Our audit revealed that the Authority lost the opportunity to earn approximately \$13,460 in potential rental income during the audit period (April 1, 2001 to June 30, 2003) from state-aided housing programs because its vacated units were not reoccupied within the timeframe established by DHCD. Our audit revealed that 17 units were vacant for periods of 44 to 395 days, with potential rental income loss per unit ranging from \$111 to \$3,382. Moreover, the current Executive Director stated that one unit, which had been vacant from August 2002

until March 2003, was not reoccupied because the maintenance employee was using the unit for personal use without paying rent.

DHCD's Property Maintenance Guide, effective January 1, 1991, requires each Housing Authority to have a unit reoccupied within 21 working days after the previous tenant has vacated it.

Because both the former Executive Director and the maintenance employee have resigned, we could not confirm that one unit was being used by the maintenance employee. The vacancy ledger did not indicate why this unit was vacant for seven months.

Additionally, one congregate unit has been vacant since June 2002 (over 395 days) with a potential loss of income totaling \$3,381. The current Executive Director stated that the Department of Mental Health did not fill the empty congregate unit because the Department does not have a program coordinator.

According to the vacancy ledger, the excessive delays in filling vacant units other than the two discussed earlier were due to apartment conditions and refusals by applicants.

Recommendation

The Authority should comply with DHCD regulations by ensuring that units are reoccupied within the required 21 working days after a unit is vacated. In addition, the Authority should contact the Department of Mental Health and request that it attempt to fill the empty congregate unit. Moreover, the Authority should not allow employees to use vacant units for personal use.

Auditee's Response

We increased the maintenance staff time to reduce the excessive vacancies and at this time we have four vacancies. Two of the vacancies are in the 667-1 program. We have made four offers, three were refused, and one is waiting for the CORI to come back. The other two vacancies are in the 200-1 family program and require extensive repairs. We will lease these units as soon as they are ready for occupancy.

4. NONCOMPLIANCE WITH INTERNAL REVENUE SERVICE REGULATIONS REGARDING FORM 1099

Our audit revealed that the Authority did not issue Internal Revenue Service (IRS) Form 1099 to tradesmen who received \$600 or more for calendar years 2001 and 2002 as required by IRS. Specifically, six tradesmen who received between \$1,285 and \$41,417 during the period January 1, 2001 to December 31, 2001 were not issued Form 1099. Additionally, four tradesmen who received between \$1,080 and \$12,756 during the period January 1, 2002 and December 31, 2002 were not issued Form 1099.

IRS requires that all unincorporated tradesmen who receive \$600 or greater in a calendar year be issued a Form 1099-MISC by the entity that paid them.

The fee accountant stated that he had relied solely on the former Executive Director's list of eligible tradesmen when he issued 1099s at the end of 2001 and 2002. We found that the Authority does not maintain a vendor file with supporting W-9 forms to determine which tradesmen are unincorporated and should be issued 1099s at the end of the year.

Recommendation

The Authority should comply with IRS requirements and issue 1099s to all unincorporated tradesmen who receive \$600 or more during a calendar year. In addition, the Authority should maintain a W-9 vendor file to ensure proper issuance of Forms 1099.

Auditee's Response

We have started issuing W-9 forms to all vendors and assure you we will be issuing 1099 forms to all unincorporated vendors.

5. NONCOMPLIANCE WITH TENANT SELECTION PROCEDURES

Our review revealed that the Authority did not comply with 760 CMR 5.00, which delineates fair and equitable procedures for selecting applicants in state-aided housing. The 760 CMR 5.10 states that when a unit or rental assistance voucher becomes available, it shall be offered

to the applicant with an appropriate household size who has the lowest control number in the highest preference category.

Our review of 21 tenants housed during the audit period (April 1, 2001 to June 30, 2003), found several shortcomings regarding tenant selection. Two tenants were housed before others who had lower control numbers, and the Authority could not provide any adequate explanation or documentation for the advance placement. One tenant was over the income limit set by DHCD at the time of admission. Another tenant was classified as an emergency placement, but no documentation was available to support this priority classification. In addition, three tenant files could not be located for review. Two of those tenants have since moved out, and the third tenant has died.

Because the former Executive Director had resigned, we could not determine whether any extenuating circumstances existed for these priority placements or why three files were missing. Therefore, there is inadequate assurance that housing applicants have been properly selected.

Recommendation

The Authority should review current applicants on the waiting list and verify priorities and preferences to ensure that applicants are housed in the proper order and in compliance with applicable laws and regulations. The Authority should ensure that all tenant files are properly safeguarded and retained.

Auditee's Response

We are updating the waiting list for our 667, 200 and 705 programs and therefore will be able to tenant select in compliance with DHCD regulations.

6. POTENTIAL CONFLICT-OF-INTEREST VIOLATIONS

Chapter 268A (Conduct of Public Officials and Employees), Section 23 (b) (3), of the Massachusetts General Laws states:

No current officer or employee of a state, county or municipal agency shall knowingly, or with reason to know....*act in a manner which would cause a reasonable person, having knowledge of the relevant circumstances, to conclude that any person can improperly influence or unduly enjoy his favor in the performance of his official duties, or that he is likely to act or fail to act as a result of kinship, rank, position or undue influence of any party or person. It shall be unreasonable to so conclude if such officer or employee has disclosed in writing to his appointing authority or, if no appointing authority exists, discloses in a manner which is public in nature, the facts which would otherwise lead to such a conclusion.*

During our audit we noted that the Authority purchased a total of \$1,585 in used furniture from an antiques store owned by the Authority's maintenance employee. In addition, the Authority paid cash for a new truck in March 2003 but did not apply against that purchase the trade-in value of its 1993 Ford F250 pick-up truck, which was \$2,340 according to the Kelly Blue Book. Instead, the former Executive Director purchased the 1993 pick-up truck for \$650.

When we discussed these matters with the Board of Directors, its members stated that they were unaware that (1) the antiques store was owned by the maintenance man; (2) the former Executive Director was purchasing used furniture until the invoices were presented for payment; (3) the pick-up truck was not traded in for the new truck; and (4) the former Executive Director had purchased the old truck for \$650. The Board has since repossessed the pick-up truck, placed it back into service, and returned the \$650 to the former Executive Director.

Recommendation

The Authority should ensure that its employees are aware of laws and regulations regarding conflict of interest and not permit transactions that would cause a reasonable person to question the presence of improper influence or undue gain.

Auditee's Response

Regarding the conflict of interest, all parties involved no longer work for the Authority and all current employees are aware of the regulations regarding conflict of interest.

7. MISSING SUPPORTING DOCUMENTATION

During our audit, we noted that the Authority was unable to locate four purchase invoices totaling \$4,129. The missing invoices were related to furniture purchases: one from the antique shop of the Authority's maintenance employee for \$1,285, two from another antique shop for \$520 and \$1,000, and a fourth from a new furniture dealer for \$1,324.

DHCD's accounting manual states that a control system must be established to properly record, classify, and accumulate accounting information. Such a system would provide for greater internal control and a means of safeguarding the assets of the Authority and enable the Authority to adhere to proper management practices and DHCD regulations.

Because the former Executive Director had resigned, the reason for the missing invoices could not be determined. The Treasurer of the Authority stated that because she would check invoices prior to signing Authority checks, she knows that they were available at that time, but she does not know why they would be missing now.

Recommendation

The Authority should review and revise its internal control procedures to ensure that invoices are properly reviewed and properly filed.

Auditee's Response

Regarding missing supporting documentation, the Authority has reviewed and revised its internal control procedures to ensure invoices are properly reviewed and properly filed.