



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued January 16, 2015

Sudbury Housing Authority

For the period April 1, 2012 through December 31, 2013





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January 16, 2015

Ms. Lydia Pastuszek, Chair
Sudbury Housing Authority
55 Hudson Road
Sudbury, MA 01776

Dear Chairwoman Pastuszek:

I am pleased to provide this performance audit of the Sudbury Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, April 1, 2012 through December 31, 2013. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Sudbury Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Sudbury Housing Authority for the period April 1, 2012 through December 31, 2013.

The objectives of our audit were to review and analyze the Authority's management controls and practices over its financial operations; eligibility determinations, redeterminations, and tenant selection; procurement of goods and services; site inspections; and contracting and leasing procedures. We also reviewed the Authority's compliance with applicable laws, rules, and regulations, including the Department of Housing and Community Development's (DHCD's) financial reporting and data collection requirements. In addition, we determined whether any Authority-related associations, corporations, or other private entities were involved in financial and/or management activities related to the Authority, and we determined whether the Authority had received money under Chapter 44B of the General Laws (the Community Preservation Act) and, if so, had spent the funds according to that law and DHCD guidelines.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 7	The Authority could not demonstrate that it had conducted a complete physical inventory of its assets during our audit period. In addition, its inventory list had not been reconciled to its financial records. This places the Authority at risk of loss, theft, or misuse of its assets and of misreporting the value of its assets.
Recommendation Page 7	The Authority should perform an annual physical inventory of its property and equipment and reconcile the inventory information to its accounting records to ensure the accuracy of its inventory list.
Finding 2 Page 8	The Authority did not obtain approval from its board of commissioners before awarding an \$8,395 modernization contract and writing off an uncollectible \$1,565 tenant account. Performing these transactions without board approval circumvented the board's governance role at the Authority.
Recommendation Page 9	The Authority should ensure that it obtains the required approval from its board of commissioners for all contract awards and write-offs of uncollectible accounts.
Finding 3 Page 10	The Authority's liability for accrued compensated absences was understated by \$7,700.93 in its financial statements for fiscal year 2013 and overstated by \$3,503.02 in its financial statements for the nine-month period ended December 31, 2013.
Recommendation Page 11	The executive director and fee accountant should work together to calculate the Authority's paid leave liability, making sure to include all applicable paid leave time and use the current pay rate for all employees in its liability calculations.

Finding 4 Page <u>11</u>	The Authority did not consistently perform bank reconciliations of its modernization, development, and pet-deposit accounts. Monthly bank reconciliations are important in helping protect the Authority against unauthorized charges and electronic theft.
Recommendation Page <u>11</u>	The Authority should perform monthly reconciliations of all of its bank accounts.

OVERVIEW OF AUDITED ENTITY

The Sudbury Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority's administrative office is located at 55 Hudson Road in Sudbury, Massachusetts. The Authority currently manages and oversees 16 units of state scattered-site housing for low-income families and 64 units of state housing for elderly tenants. It also manages 12 units of non-state affordable family housing.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Sudbury Housing Authority for the period April 1, 2012 through December 31, 2013.¹

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Authority have adequate controls over its financial operations, including reasonableness of administrative expenses such as executive compensation and benefits, rent collections, the collectability of accounts receivable, cash controls, and the administration and oversight of development and modernization fund expenditures?	No; see Findings <u>3</u> and <u>4</u>
2. Did the Authority have adequate controls over eligibility determinations, redeterminations, and tenant selection?	Yes
3. Did the Authority have adequate controls over procurement of goods and services and inventory controls over supplies and equipment?	No; see Finding <u>1</u>
4. Did the Authority have adequate controls over site inspections?	Yes
5. Did the Authority have adequate controls over contracting and leasing procedures?	No; see Finding <u>2</u>
6. Did the Authority comply with the Department of Housing and Community Development's (DHCD's) financial reporting and data collection requirements?	Yes
7. Were there any Authority-related associations, corporations, or other private entities that were involved in financial and/or management activities related to the Authority?	No

¹ The Authority's fiscal year begins in April.

Objective	Conclusion
8. Did the Authority spend money received under Chapter 44B of the General Laws, or the Community Preservation Act (if it received any), according to that law and DHCD guidelines?	Yes

To achieve our audit objectives, we gained an understanding of, and tested, the relevant internal controls for financial operations, tenant selection and occupancy, vacancies, annual rent determinations, property maintenance, administrative expenses, property and equipment, and contract procurement, as well as modernization.

Further, we conducted audit testing in the following areas:

- We reviewed the Authority’s policies and procedures for the administration of employee salaries and fringe benefits, verifying compliance with established requirements through an examination of a sample of 9 out of the 91 pay periods in our audit period.
- We reviewed all travel-related expenses and verified compliance with established policies.
- We reviewed 22 of the 208 general administrative expenditures that were made during our audit period for appropriateness and compliance with established policy.
- We tested tenant accounts receivable procedures and practices to ensure that rent collections were timely and that uncollectible tenant accounts receivable were written off in accordance with established policies.
- We reviewed cash management and investment policies and practices to verify that the Authority prepared timely bank reconciliations, that it maximized its interest income, and that its deposits were fully insured.
- We examined 16 of 82 development expenditures and all 3 modernization expenditures from our audit period to determine whether amounts paid were in accordance with applicable procurement requirements.
- We reviewed loan documents related to Massachusetts Housing Partnership development funds.
- We reviewed funds received under Chapter 44B of the General Laws (the Community Preservation Act) to determine whether they were spent in accordance with that law and DHCD guidelines.
- We reviewed 8 out of 13 new tenants’ eligibility verifications to determine whether they were eligible for housing in accordance with DHCD regulations.
- We examined the vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.

- We tested 13 of 80 annual rent determinations to verify that rents were calculated properly and in accordance with DHCD guidelines.
- We tested procedures for property and equipment and determined the adequacy of the Authority's controls to protect, and account for, its assets in accordance with DHCD guidelines.
- We reviewed site-inspection procedures and records to verify compliance with DHCD inspection requirements, and we determined whether selected housing units were in safe and sanitary condition.
- We examined contract-procurement records to verify compliance with applicable laws and DHCD requirements for awarding contracts.
- We reviewed the Authority's DHCD-approved operating budget for fiscal year 2013 and compared it to actual expenditures. We also reviewed line-item and total amounts to ensure that they were within budgetary limits.
- We reviewed the adequacy of procedures in effect to collect data and ensure that required reports were complete, accurate, and submitted to DHCD in a timely manner.
- We reviewed the Authority's management plan to determine whether it was up to date and reflected all current applicable legal, regulatory, and other requirements.
- We reviewed the Authority's transactions and determined whether the Authority had conducted any transactions with related associations, corporations, or other private entities.

We obtained revenue, grant award, and expenditure information generated from information systems maintained by the Commonwealth and by the Authority. We compared this information with source documents and conducted information-security tests to determine the reliability of data. We determined that the data were sufficiently reliable for the purposes of this report. Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Authority's inventory recordkeeping is inconsistent.

The Authority maintains inventory lists of furniture and equipment as required by the Department of Housing and Community Development (DHCD). However, it could not provide documentation of having performed a physical inventory during our audit period, and its inventory list was inconsistent with its financial records. We found the following:

- The Authority had no record of having performed a physical inventory during our audit period. It did provide records of partial physical inventories (e.g., counts of only refrigerators or only maintenance equipment) taken at various dates after our audit period, but no record of a single physical inventory of all assets.
- The Authority's equipment inventory list is inaccurate. Specifically, the Authority's latest equipment inventory list did not include assets of \$13,745.34 purchased in 2012 or assets of \$16,300.00 purchased in 2013, but these assets were included on the Authority's balance sheet and general ledger.

Not performing a comprehensive inventory places the Authority's assets at risk of undetected loss, theft, or misuse. In addition, without reconciling its inventory to its financial records, the Authority risks providing inaccurate information to DHCD regarding the value of its assets.

Authoritative Guidance

Section 15 of DHCD's Accounting Manual for State-Aided Housing Programs states, in part,

1. *A physical inventory of all furniture and Non-expendable Equipment must be taken and an inventory list maintained each year.*
2. *Physical inventory results must be compared to [the] equipment record and any discrepancies will be reviewed by the LHA [local housing authority] for possible adjustments.*

Reasons for Lack of Updates

The Authority stated that lack of staff and time constraints had prevented it from updating the inventory records.

Recommendation

The Authority should perform an annual physical inventory of its property and equipment and reconcile the inventory information to its accounting records to ensure the accuracy of its inventory list.

Auditee's Response

The Authority provided overall comments on this report as well as comments specific to each finding.

The Authority's overall comments are as follows:

The Sudbury Housing Authority [SHA] operates on a philosophy of continuous improvement and appreciates the review and analysis provided by the audit team. The 18-month audit period coincided with a 23-month period of unprecedented change in both personnel and programming for the SHA: 100% staff turnover after 15 years without change, coupled with the culmination of redevelopment/acquisition initiatives that created 11 new units of affordable housing.

The SHA has identified time and personnel constraints that limited training and task execution, as well as a lack of quality communication with its fee accountant, as root causes to the observations outlined in this report. The SHA commits to continued attention to measures that mitigate such root causes. To that end, the SHA continues to build a skilled staff and strong rapport with its current fee accountant.

The Authority's comments on the specific issue noted in this finding are as follows:

The SHA is aware of the requirement to perform an annual physical review of its inventory and has resumed this annual practice. A shortage of both time and trained personnel during the audited period interfered with carrying out this responsibility.

With respect to suggested inconsistencies in our inventory, the SHA's longstanding practice is to maintain lists of tagged inventory, complemented by building-level inventories of what the SHA considers permanent fixtures. Typically untagged and some of which might be capitalized, such items include boilers, furnaces, water heaters, heat pumps, windows, toilets and bathtubs. These building-level lists serve not only as inventories, but as contractor aids and repair/replacement histories. It was an oversight that these building-level lists were not provided during the on-site audit. The SHA is working with its current fee accountant to confirm that appropriate record-keeping practices are in place.

2. The Authority conducted some transactions without obtaining the required approval from its board of commissioners.

During our review of the three modernization contracts awarded during our audit period, we found that one contract had not been submitted to the Authority's board of commissioners for approval. The contract, in the amount of \$8,395, was related to modernization work awarded to a private construction company. Lack of the appropriate approval means that the board did not have the opportunity to fulfill its oversight role and ensure that the procurement process for this contract was properly administered.

We also noted that the Authority did not seek board approval for the write-off of an uncollectible tenant account in the amount of \$1,565. Because write-offs reduce the Authority's revenue, performing them without board approval also does not allow the board to fulfill its oversight role.

Authoritative Guidance

The Sudbury Housing Authority's procurement policy requires the executive director to submit all bids to the board of commissioners for approval.

Section 19 of DHCD's Accounting Manual states that the board of commissioners must approve the write-offs of all uncollected tenant accounts receivable.

Reasons for Lack of Documented Board Approval

The Authority's former executive director told us that the Authority did not consider the contract amount large enough to report to the board of commissioners.

The Authority's fee accountant wrote off the tenant account receivable before informing the former executive director, who in turn did not seek approval from the board of commissioners.

This issue showed a lack of communication among the executive director, the fee accountant, and the board of commissioners.

Recommendation

The Authority should ensure that it obtains the required approval from its board of commissioners for all contract awards and write-offs of uncollectible accounts.

Auditee's Response

The SHA is aware of the requirement to seek approval from its Board of Commissioners for contract awards of the magnitude cited. . . . The absence of a Board vote for the contract award of \$8,395 was simply an oversight; the Board approved the expenditure at its June 11, 2013 Regular Session and has since ratified the award.

With respect to the rent write-off of \$1,565. . . . Poor quality communication with the [former] fee accountant led to this discrepancy.

Auditor's Reply

We again recommend that the Authority take the measures necessary to ensure that it obtains the required approval from its board of commissioners for all contract awards and write-offs of uncollectible accounts.

3. The Authority misstated the value of employee leave time in its financial records.

Our review of the Authority's accrued compensated absences disclosed that in its financial records, the Authority did not correctly account for the value of paid leave time that employees had accrued during fiscal year 2013 and the nine-month period ended December 31, 2013. This paid leave time (referred to as the Authority's accrued compensated absence liability), as reported to DHCD, was understated by \$7,700.93 for the fiscal year ended March 31, 2013 and overstated by \$3,503.02 for the nine-month period ended December 31, 2013.

Authoritative Guidance

Section 19 of DHCD's Accounting Manual requires LHAs to follow Government Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, which, states, in part,

A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee [i.e. an employee gets sick] should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those services are rendered or those events take place.

Reasons for Misstatement of Accrued Compensated Absences

For fiscal year 2013, the liability calculation omitted amounts related to sick pay due employees other than the executive director. Employees are allowed to carry over up to 120 days of sick time from year to year, but this did not always occur; for instance, two employees' sick time was not carried over during fiscal year 2013. In addition, the fee accountant applied a noncurrent pay rate to an employee's leave time.

For the period ended December 31, 2013, the detail of the fee accountant's liability calculation was unavailable. The overstatement cited is based on a calculation performed by the Office of the State Auditor.

Finally, the Authority's executive director did not work with the fee accountant to ensure that the calculations were accurate.

Recommendation

The executive director and fee accountant should work together to calculate the Authority's paid leave liability, making sure to include all applicable paid leave time and use the current pay rate for all employees in its liability calculations.

Auditee's Response

The SHA maintains up-to-date and accurate leave-time records. Poor quality communication with the fee accountant led to this discrepancy between the SHA's records and the fee accountant's report. For reporting periods subsequent to the audit period, the SHA will ensure that the accountant's records align with those of the SHA.

4. The Authority did not always perform bank reconciliations.

The Authority did not consistently perform monthly bank reconciliations of its modernization, development, and pet-deposit accounts.² During our audit period, the Authority completed 6 of 30 possible bank reconciliations for the modernization and development bank accounts and did not perform any bank reconciliations of the pet-deposit account. We did note that the Authority performed reconciliations for its general disbursement account throughout our audit period. However, without performing all monthly bank reconciliations, the Authority risks loss of funds, through unauthorized charges or even electronic theft, without timely detection.

Authoritative Guidance

Section 16 of DHCD's Accounting Manual for State-Aided Housing Programs requires LHAs to perform a "reconciliation of the monthly bank statement."

Reasons for Missed Reconciliations

The executive director did not ensure that the fee accountant was performing these reconciliations.

Recommendation

The Authority should perform monthly bank reconciliations of all of its bank accounts.

2. Tenants of the Authority are allowed pets; however, they must provide the Authority with an additional security deposit in order to keep a pet.

Auditee's Response

Poor quality communication with the fee accountant led to inconsistencies in reconciling some accounts in some instances. The SHA has taken steps to ensure that its current fee accountant consistently reconciles all bank account statements to the SHA's transaction records.

OTHER MATTERS

Determination of Household Income— 760 Code of Massachusetts Regulations 6.05(2)(c)

While reviewing the Sudbury Housing Authority’s tenant-selection and rent-determination practices, we observed that a number of the Authority’s tenants had assets such as real estate and personal property that, according to the regulations of the Department of Housing and Community Development (DHCD), must be considered by local housing authorities (LHAs) as income in determining tenants’ rent. For this purpose, 760 Code of Massachusetts Regulations 6.05(2)(c) defines income as follows:

Income of any kind from real or personal property including rent, dividends, and interest. If the household has marketable real or personal property with a fair market value exceeding \$5,000 (excluding any automobile used as the primary means of transportation by one or more household members), gross household income shall include the higher of actual income derived from any such property or a percentage of the value of such property.

This paragraph is not clear regarding whether the “actual income . . . or percentage of the value” is that of each individual item or of all the items combined.

If it refers to all the items combined, the total is calculated by adding the fair market values of all the assets, multiplying the sum by a specific percentage (currently set at 1% by DHCD), and comparing that amount to the total income derived from all the assets. The higher of the two amounts is added to income, as in the following example.

	Fair Market Value	Assigned Value (Percentage of Fair Market Value)	Income from Asset
Asset 1	\$300,000	\$3,000	\$4,000
Asset 2	400,000	4,000	0
Asset 3	200,000	2,000	0
Total	<u>\$900,000</u>	<u>\$9,000</u>	<u>\$4,000</u>

If all the items are combined,
the amount added to the household income is \$9,000.

Thus the amount added to the household income is \$9,000 (the sum of the three assigned values multiplied by an assumed interest rate of 1%), because that sum is higher than the sum of the incomes derived from all three assets (only \$4,000, because two of the properties had no income).

If the phrase refers to the value of each individual item, the total is calculated by first determining which is higher for each individual item—the specified percentage of fair market value or the actual income—and then adding together the resulting amounts, as in this example with the same assets:

	Fair Market Value	Assigned Value (Percentage of Fair Market Value)	Income from Asset	Amount Added to Household Income
Asset 1	\$300,000	\$3,000	\$4,000	\$ 4,000
Asset 2	400,000	4,000	0	4,000
Asset 3	200,000	2,000	0	2,000
Total	<u>\$900,000</u>	<u>\$9,000</u>	<u>\$4,000</u>	<u>\$10,000</u>

If each item is considered separately,
the amount added to the household income is \$10,000.

The amount added to the household income is now \$10,000, the sum of the higher numbers assigned to each of the three items.

In this example, the value of the income-producing \$300,000 property varies depending on how the regulation is interpreted, and this changes the total added to the household income.

During our audit, the Authority asked DHCD for clarification on this issue and, on July 7, 2014, received an e-mail from DHCD’s regional legal counsel that stated, in part,

Although I’m not an expert on rent calculation, I have always advised LHAs to treat every “marketable real or personal property with a value exceeding \$5,000.00” separately. . . . If a tenant has multiple properties then you should look at them individually and the “gross household income shall include the higher of actual income derived from any such property or a percentage of the value of such property.”

Although the Authority received this communication from DHCD, the department has not issued any official guidance on this subject. The Authority also received a response from an asset manager at DHCD whose response conflicted with that received from the regional legal counsel. Moreover, certain

guidance that has been issued to LHAs by the National Association of Housing and Redevelopment Officials, to which many LHAs belong, seems to be inconsistent with the guidance the Authority received from DHCD's legal counsel. Consequently, we believe that DHCD should consider issuing official guidance to LHAs on this subject to ensure that all rent determinations involving assets such as real estate and personal property are conducted in a manner consistent with DHCD requirements.