

LEXINGTON HOUSING AUTHORITY
Lexington, Massachusetts

REPORT ON AGREED-UPON PROCEDURES

June 30, 2017

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**INDEPENDENT AUDITORS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To The Board of Commissioners
Lexington Housing Authority
Lexington, Massachusetts

We have performed the procedures enumerated below, which were agreed to by the Board of Commissioners, the Department of Housing and Community Development (DHCD) and management of the Lexington Housing Authority, solely to perform the agreed-upon procedures, as prescribed by the Massachusetts Department of Housing and Community Development for the year ended June 30, 2017. The Lexington Housing Authority's management is responsible for management decisions and functions and maintaining internal controls, including monitoring ongoing activities. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are presented in the Schedule of Agreed-Upon Procedures included in this report.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the effectiveness of the Lexington Housing Authority's internal controls or on compliance with certain provisions of laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Commissioners, DHCD and management of the Lexington Housing Authority, and is not intended to be and should not be used by anyone other than these specified parties.



Braintree, Massachusetts
February 28, 2018

Housing Authority: Lexington Housing Authority

Fiscal Year End (FYE): 30-Jun-17
 Date AUP Conducted: 10/31/2017
 Executive Director: Caileen Foley
 CPA: Guyder Hurley
 CPA Phone: 617-376-6226

A. Rent Collection / Tenant Accounts Receivable / Account Write-Offs
 Number of Category Exceptions: 0 Category Rating: No Findings

| A. Rent Collection – Walk-through of sample (Small - 3, Med - 5, Large - 7, Very Large - 9) of individual rent receipts to ensure all the following steps are being executed. | No Exception Found |
|---|--------------------|
| 1. Log of rent collected is complete, accurate and includes all necessary information. | NE |
| 2. Post-dated checks for current amount due is not accepted payment by LHA. | NE |
| 3. Trace amounts from receipt log to deposit slip for bank. Cash is deposited daily per DHCD guidelines (per Accounting Manual Sec. 8, p. 3). Except IF: LHA has only one administrative employee who deposits cash at least weekly. | NE |
| 4. Reconcile tenant ledger with receipt log, bank deposit and General Ledger. | NE |
| 5. What is on General Ledger matches bank statement (bank reconciliation) and Operating Statement and Balance Sheet (51-1 and 51-2 respectively). | NE |
| B. Rent Collection – Segregation of Duties | No Exception Found |
| 1. Document and evaluate internal controls and segregation of duties for steps 1 to 5 above. For LHAs with only one administrative employee: if sufficient internal controls and segregation of duties are not in place, there are mitigating controls in place, such as reporting the frequency/amount of credit adjustments to the board or fee accountant. | NE |
| C. Rent Collection – Tenant Accounts Receivables (TAR) | No Exception Found |
| 1. Aging of Tenant Accounts Receivable is matched to the General Ledger and to the Balance Sheet TAR (51-2). | NE |
| 2. Draw a sample of uncollected TAR accounts (Small - 3, Med - 5, Large - 7, Very Large - 9). Rent Collection is in compliance with LHA rent collection policy (per Contract for Financial Assistance (CFA) and Management Plan IIIC). | NE |
| 3. Allowance for Doubtful Accounts is determined in accordance with GAAP and LHA has evaluated estimate on annual basis. Reasonable allowance based on historical data. Repayment Agreements reconcile to the Balance Sheet/Operating Statements and are in accordance with DHCD policy. | NE |
| D. Account Write-Offs – Walk-through uncollected rent that was written-off. | No Exception Found |
| If no write-offs can be found, please select N/A option from drop down for both steps 1 and 2. | |
| 1. Obtain detail of write-offs and verify that write-offs are in accordance with DHCD policy. | NE |
| 2. Documentation of Board approval to write-off account (board approval of write-off required per budget guidelines for Acct #4570 - Collection Loss). | NE |

Exceptions Noted:

Internal Control Recommendation:

Authority's Response:

| Housing Authority: Lexington Housing Authority | |
|--|---|
| B. Payroll/Fringe Benefits | |
| Number of Category Exceptions: 1 | Category Rating: Operational Guidance |
| A. Wage Reconciliation | Exception Found |
| 1. Verify analytically (not to exact amount) that FYE-end wages gross payroll reported on the LHA's General Ledger for all programs and all employees matches actual wage amounts reported on Forms 941 and WR-1 (state and federal filings). | NE |
| 2. Look at DHCD-approved budget <i>Schedule of All Salaries and Positions "Report"</i> in HAFIS and identify five highest paid salaries from all funding sources. Verify analytically (within % ANUEL increase for that year - exclude overtime in calculation for maintenance employees) that it matches the amount reported at FYE on the LHA's Top 5 Compensation Form (LHA should have a copy on file). Verify the amount reported on the Top 5 Compensation Form matches <u>exactly</u> the amount reported on reconciled Form 941 and the corresponding state online submission (mass.gov/lwd/unemployment-insur/employers/). | E |
| 3. LHA is in possession of DHCD-approved executive contract signed by the LHA, Executive Director and DHCD. If LHA can show that currently being processed by DHCD and was not returned to the LHA for failing to meet DCHD's requirements, LHA can produce the last DHCD-approved executive contract signed by the LHA, Executive Director and DHCD. | NE |
| B. Select a Single Pay Period: | No Exception Found |
| 1. Trace timesheets/timecards to the payroll register. | NE |
| 2. Test for completeness and accuracy. | NE |
| 3. Proper controls and approvals are in place, i.e. employees sign timesheets, the Executive Director signs off on employee timesheets, and the Executive Director maintains a timesheet. | NE |
| C. Obtain a compensated absences liability schedule: | No Exception Found |
| 1. Test for consistency with personnel policy (personnel policy required per Contract for Financial Assistance (CFA) and Management Plan IIa2) and reconcile to Balance Sheet (51-2) and General Ledger. If AUP conducted after 9/30/17, personnel policy includes (1) the limits on the amount of vacation and sick leave that will be accrued each year, and when and how such leave will be accrued; (2) a limit on the amount of accrued vacation that may be carried over from year to year, and; (3) a cap on the payout for accrued and unused sick leave at the end of employment per PHN 2017-14. Verify analytically future liabilities for employee benefits (particularly GASB 45 and GASB 68) are properly reflected on Operating Statement (51-1) and Balance Sheet (51-2). If GASB 68 actuarial reports were not received by the LHA in time for year-end financial statements, it is OK for LHA to report last year's GASB 68 numbers. | NE |
| 2. Proper controls and approvals are in place, i.e. Executive Director approves employee compensated absences. | NE |
| 3. Compensated absences should be tracked apart from the timesheets, and verification with timesheets should be performed. | NE |
| 4. Accrued and Accumulated leave time matches. Time is accruing as it should. | NE |
| Exceptions Noted: | <i>We identified that of the employees reported on the Top 5 Compensation Form, one employee's reported income did not agree to his/her actual fiscal year wages, but it did agree with the employee's calendar year wages.</i> |
| Internal Control Recommendation: | <i>We recommend that the wages reported on the Top 5 Compensation Form agrees exactly to what is reported on Forms 941 and WR-1 for the fiscal year.</i> |
| Authority's Response: | <i><See attached responses></i> |

| Housing Authority: Lexington Housing Authority | |
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| C. Accounts Payable/Disbursements | |
| Number of Category Exceptions: 0 | Category Rating: No Findings |
| A. Select a sample (Small - 3, Med - 5, Large - 7, Very Large - 9) of operating and capital expenditures (at least 1 of each type if have). 1. Approval and Segregation of Duties 2. Accuracy 3. Supporting Documentation 4. Allowability 5. Allocation 6. Classification | No Exception Found NE NE NE NE NE NE |
| C. Select a sample (Small - 6, Med - 10, Large - 14, Very Large - 18) of credit card/debit card statements. If no credit/debit expenditures can be found, please select N/A option from drop down for <u>all</u> steps 1 to 8. 1. Approval and Segregation of Duties 2. Accuracy 3. Supporting Documentation (CPAs: include date, description of charge and amount of transaction for each purchase missing documentation below) 4. Allowability 5. Allocation 6. Classification 7. No Sales Tax Paid 8. Card is in Housing Authority name; not Executive Director (or any other staff member) name. | No Exception Found NE NE NE NE NE NE NE |
| D. Select a sample (Small - 3, Med - 5, Large - 7, Very Large - 9) of employee reimbursements (include at least one travel reimbursement). 1. Approval and Segregation of Duties 2. Accuracy 3. Supporting Documentation 4. Allowability 5. Allocation 6. Classification | No Exception Found NE NE NE NE NE NE |
| Exceptions Noted: | |
| Internal Control Recommendation: | |
| Authority's Response: | |

| D. Inventory (Fixed Assets) | |
|---|------------------------------|
| Number of Category Exceptions: 0 | Category Rating: No Findings |
| A. Obtain a copy of the depreciation schedules/fixed asset listing: | No Exception Found |
| 1. Inventory listing includes both capitalized and non-capitalized items (such as refrigerators, stoves, community room equipment, office equipment, etc.) of \$1,000 or more. It also includes all necessary information, including a tag with an LHA-assigned number for all assets of \$1,000 or more (and all refrigerators and stoves of any value). | NE |
| 2. Depreciation schedule/fixed asset listing includes all relevant assets of \$5,000 or more. It also includes all necessary information to sufficiently identify an asset. For vehicles, that includes the make/model/year and for modernization jobs the Fish number. | NE |
| 3. Items on depreciation schedule/fixed asset listing are being accurately depreciated. | NE |
| 4. Reconcile depreciation schedule/fixed asset listing to Form 51-1 (Operating Statement) and General Ledger and evaluate for completeness and sufficiency of detail. | NE |
| 5. Verify analytically that items listed still exist and are in possession of LHA. | NE |
| 6. Assets are appropriately allocated between Federal and State on General Ledger, Operating Statement (51-1), and depreciated according to which funds were used for purchase. | NE |
| B. Capitalization Policy | No Exception Found |
| 1. Verify capitalization policy is within state established limits (per Accounting Manual, Sec. 16, p.3). | NE |
| C. Vehicles | No Exception Found |
| 1. Confirm vehicles are listed on fixed asset listing, and trace vehicles listing to insurance policies. | NE |
| <i>Exceptions Noted:</i> | |
| <i>Internal Control Recommendation:</i> | |
| <i>Authority's Response:</i> | |

| Housing Authority: Lexington Housing Authority | |
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| E. Procurement/Public Bidding for Goods and Services | |
| Number of Category Exceptions: 0 | Category Rating: No Findings |
| <p>For A to C below, examine the cash disbursements journal (or check register) as well as the contract register and identify purchases of goods and services during the year that should have been competitively procured. From these purchases that should have been competitively procured, select a sample (Small - 3, Med - 5, Large - 7, Very Large - 9) of known or possible procurements valuing \$10,000 or more; if possible when selecting the sample, include at least one procurement valuing \$10,000 to \$35,000 and one procurement valuing \$35,000 or more (for goods and services for MGL c. 30B only). If any in the sample were not competitively procured, enter as an exception in A. For sampled purchases that went through procurement, follow procedures under B or C below depending on the size of the procurement.</p> | |
| A. Competitive Procurement When Required | No Exception Found |
| 1. Verify that sampled purchases for goods and services that should have been competitively procured as defined per MGL c. 30B were competitively procured. | NE |
| B. Known procurements valuing (pre 11/7/16 - \$10,000 up to \$35,000 OR post 11/7/16 \$10,000 up to and including \$50,000) (for goods and services for MGL c. 30B only). If no procurement can be found valuing \$10,000 up to \$35,000, please select N/A option from drop down for each step 1 - 7 below. | No Exception Found |
| 1. (pre 11/7/16) Proper selection based on MGL c.30B s.5 IFB requirements/(post 11/7/16) Proper selection based on MGL c.30B s.5 solicitation of quotes requirements. | NE |
| 2. (pre 11/7/16) Documentation of solicitation of at least three oral or written quotes/(post 11/7/16) Documentation of a written purchase description with solicitation of <u>written</u> quotes from at least three persons. | NE |
| 3. Contract is DHCD-approved template or developed by LHA (not a vendor contract). | NE |
| 4. Contract was for not more than 3 years unless majority board vote allowed it to be longer. | NE |
| 5. Board vote is documented approving individual contract, or a board vote to delegate authority over certain contracts (by dollar threshold or other criteria) to an LHA staff member, usually Executive Director. | NE |
| 6. Contract did not go through automatic renewals unless renewals were part of the original procurement. | NE |
| 7. LHA Procurement Policy exists (per Accounting Manual Sec. 16, p.2) and is compliant with MGL c. 30B elements mentioned in 1 to 6 above. | NE |
| C. Known procurements valuing (pre 11/7/16 - \$35,000 or more OR post 11/7/16 more than \$50,000) (for goods and services for MGL c. 30B only). If no procurement can be found in this value range, please select N/A option from drop down for each step 1 - 8 below. | No Exception Found |
| 1. Proper selection based on MGL c.30B s.5 IFB requirements or MGL c.30B s.6 RFP requirements. (post 11/7/16 only: if using MGL C.30B s.6 RFP requirements, LHA must have a Chief Procurement Officer (CPO) conduct the procurement under c.30B s.6.) | NE |
| 2. (pre 11/7/16) Documentation of Newspaper advertisement two week prior to bidding process/(post 11/7/16) Documentation of Newspaper advertisement, LHA's Office and COMMBUYS two weeks prior to bidding process. | NE |
| 3. If contract was for over \$100K, it was advertised in the Goods & Services Bulletin. | NE |
| 4. If IFB, contract award went to lowest bidder. If RFP, contract went to lowest bidder or letter explaining why went with another bidder. | NE |
| 5. Contract is DHCD-approved template or developed by LHA (not a vendor contract). | NE |
| 6. Board vote is documented approving individual contract, or a board vote to delegate authority over certain contracts (by dollar threshold or other criteria) to an LHA staff member, usually Executive Director. | NE |
| 7. Contract did not go through automatic renewals unless renewals were part of the original procurement. | NE |
| 8. LHA Procurement Policy exists (Accounting Manual Sec. 16, p.2) and is compliant with MGL c. 30B elements mentioned in 1 to 7 above. | NE |
| D. Obtain a copy of the contract register and verify: | No Exception Found |
| 1. Contract register exists and includes all modernization as well as goods and services contracts (per Accounting Manual, Sec. 6, p.12)/PHN 2017-14. | NE |
| 2. For each contract, it includes the following information: contractor, description, active/inactive, start date, end date, extensions available, contract award amount, change orders amount, contract expenditures to date and remaining value. | NE |
| 3. Evaluate for completeness by analyzing the cash disbursements journal against the contract register. | NE |
| Exceptions Noted: | |
| Internal Control Recommendation: | |
| Authority's Response: | |

Housing Authority: Lexington Housing Authority

F. Cash Management and Investment Practices

Number of Category Exceptions: 0 Category Rating: No Findings

| A. Pull a mid-year and year-end bank statements: | | No Exception Found |
|---|--|--------------------|
| 1. Test the monthly bank reconciliation to ensure that the following two match: General Ledger and bank statements (exclude deposits of rent collected as this was covered earlier). | | NE |
| 2. Checks that have been issued and marked on General Ledger but have not been cashed (not on bank statement), known as checks in transit are identified as a part of the reconciliation process. | | NE |
| B. Bank and Investment Accounts | | No Exception Found |
| 1. Verify that banking and investment accounts are properly insured or collateralized (per Accounting Manual Sec. 16, p.7) | | NE |
| <i>Exceptions Noted:</i> | | |
| <i>Internal Control Recommendation:</i> | | |
| <i>Authority's Response:</i> | | |

| Housing Authority: Lexington Housing Authority | |
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| G. Operating Subsidy | |
| Number of Category Exceptions: 0 | Category Rating: No Findings |
| A. Obtain copy of DHCD-approved budget exemptions. If no DHCD-approved exemptions, please select N/A option from drop down for step 1 below. | No Exception Found |
| 1. Compare DHCD-approved budget exemptions for direct reimbursement (as found in the ANUEL & Subsidy Worksheet - Section 8) to LHA record of actual expenses to the General Ledger. | NE |
| B. Revenue Reconciliation | No Exception Found |
| 1. Reconcile revenue to the General Ledger. Compare revenue reported in Accounts #3110, #3190, #3610 and #3690 in the Operating Statement (51-1) to the General Ledger to the amounts reported in the ANUEL & Subsidy Worksheet. | NE |
| C. Utility Reconciliation | No Exception Found |
| 1. Reconcile utilities to the General Ledger. Compare utilities reported in Account #4300 on the Operating Statement (51-1) to the General Ledger to the amounts reported in the ANUEL & Subsidy Worksheet. | NE |
| Exceptions Noted: | |
| Internal Control Recommendation: | |
| Authority's Response: | |

| Housing Authority: Lexington Housing Authority | |
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| H. Annual Rent Calculation and Compliance | |
| Number of Category Exceptions: 1 | Category Rating: Operational Guidance |
| To conduct A through D below, select a sample (Small LHA - 5, Medium LHA - 10, Large or Very Large LHA - 15) of tenant files (from programs 200, 667, 705); if the LHA has multiple property managers, at least one file should be selected per manager. Conduct A to C and E, if have MRVP, sample 10% (min:1 max:15) of leased MRVP units. | |
| A. Obtain the rent roll and HAP roll: | No Exception Found |
| 1. Verify analytically the completeness of the resident population. (Rent roll and HAP roll support what is reported on Operating Statement Form 51-1). | NE |
| B. Timeliness of Annual Rent Calculation | No Exception Found |
| 1. Verify timeliness of annual rent redetermination (occurs one year from move-in date or last annual recertification). Except IF: LHA can produce DHCD waiver for Chapter 667 annual rent redetermination requirement and has done rent redetermination once within 2 years of move-in date or last annual recertification). | NE |
| C. Accuracy of Rent Calculation | No Exception Found |
| 1. Test rent calculation for proper verification of income, expenses and deductions. | NE |
| 2. Verify family composition for allowance purposes. | NE |
| 3. Documentation of income, exclusions from income, and deductions. | NE |
| D. Timeliness of Notifications Regarding Rent Changes | Exception Found |
| 1. Verify notification of rent redetermination sent at least 60 days prior to effective date (see 760 CMR 6.04 (4)(b)). | NE |
| 2. Verify Notice of Rent Change sent no less than 14 days prior to effective date (see 760 CMR 6.04 (4)(e)). | E |
| 3. Verify timeliness and proper execution of Lease Addendum (see 760 CMR 6.06 (5)(q)). | NE |
| E. MRVP Documentation (starting with AUPs conducted after 7/31/17) | No Exception Found |
| 1. MRVP file has Certificate of Fitness (COF). | NE |
| 2. MRVP file has Letter of Compliance for Lead Paint if child <6 years old and building built prior to 1978 with no new construction permit. | NE |
| 3. MRVP file has Proof of Ownership which is either 1. Deed/Online Printout from Registry of Deeds or 2. Proof of Insurance or 3. Tax Documents. | NE |
| 4. MRVP file has W9. | NE |
| Exceptions Noted: | <i>We identified that of the five (5) tenant files tested, four (4) contained rent change notices that were mailed on or after the effective date of the redetermined rents.</i> |
| Internal Control Recommendation: | <i>We recommend that regardless of a tenant's timeliness in providing documentation, the Authority should issue the tenant a notice of rent change at least fourteen days prior to the effective date. Once the Authority has received all documentation from the tenant, they can then retro actively adjust the rent to the correct amount.</i> |
| Authority's Response: | <See attached responses> |

**LEXINGTON HOUSING AUTHORITY RESPONSE
For the year ended June 30, 2017****B. Payroll and Fringe Benefits: A2 – Exception**

The Housing Authority agrees with this finding and although it was an unintentional clerical error, we will ensure that all future reporting on the Top 5 Compensation Form agrees exactly as reported on Form 941 and WR-1. We will do this by verifying all information is correct before submission.

H. Timeliness of Notifications Regarding Rent Changes: D2 – Exception

The Housing Authority disagrees with this finding. We do not agree with the Auditor's interpretation of the regulation. 760CMR 6.04 (4)(e) says we shall give the tenant no less than 14 day notice of rent change. (which the LHA does). It continues to state, if the information they give us is not complete or accurate then we will appropriately adjust the rent (which the LHA does). There is also no time requirement to complete this. It does not say what to do in a situation where a tenant does not send the recert paperwork at all. Right above that paragraph in section 760CMR 6.04 (4)(d) the regulation states, *"If within the time allotted, the tenant shall have failed to provide sufficient, complete, and accurate information in order for the LHA to make a reliable re-determination of the household's monthly net household income, the LHA **may** make a re-determination of such income based on whatever reliable information which it has or may continue to use its most recent income re-determination. The LHA **may** thereafter make an adjustment of rent retroactive to the re-determination date, following receipt of more complete and accurate information"* (emphasis added). It says we "may" make a redetermination of such income based on whatever reliable information or continue to use its most recent income redetermination. This is exactly what the LHA does: A tenant doesn't submit paperwork, so the previous rent recertification continues until they do provide the paperwork, and the rent is adjusted retroactively to the redetermination date.

We are not aware of any guidance from DHCD that supports the Auditor's interpretation of this regulation.