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OFFICE OF THE STATE AUDITOR'S REPORT
ON INFORMATION TECHNOLOGY AND
FINANCIAL-RELATED CONTROLS
AT THE QUINCY HOUSING AUTHORITY

July 1, 2002 through April 5, 2004

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INTRODUCTION

The Quincy Housing Authority (QHA), which was established through Section 3 of Chapter 121B of the Massachusetts General Laws, provides for the construction, acquisition, rehabilitation and management of rental housing for low-income persons residing in Quincy, Massachusetts. The QHA is governed by a five-member Board of Directors, one who is appointed by the Governor and four who are appointed by the Mayor of the City of Quincy, including one tenant representative. The QHA is comprised of seven departments; administration, finance, maintenance, leased housing, modernization, support services, and tenant services. The QHA operates from a central office located at 80 Clay Street in Quincy and manages eight development sites throughout the city. At the time of our audit, the QHA was staffed by approximately 70 employees.

The QHA's primary mission is to provide stable, affordable housing for low and moderate-income persons and create an environment to transform from dependency to economic self-sufficiency. In addition to providing public housing, the QHA makes affordable housing available through several rental assistance programs, such as the federal Section 8 voucher program and the state-funded Massachusetts Rental Voucher Program. Furthermore, through its assistance program, the QHA administers approximately 1,400 rental assistance vouchers. The QHA is comprised of 1,560 public housing units; of which 909 are state-owned housing and 651 are federal housing. The QHA state-funded units consist of family and elderly/disabled housing and housing for special needs. The QHA also administers a program of certificates and vouchers to assist low-income persons and families in leasing apartments in privately owned housing. Of the 1,400 vouchers, approximately 945 represent the voucher allocation to the QHA and the remainder is administered by the QHA for other housing authorities. The QHA is governed by housing regulations issued by the United States Department of Housing and Urban Development (HUD) and the Massachusetts Department of Housing and Community Development (DHCD).

For the annual fiscal period ending June 30, 2004, the QHA received $1,304,841 for federal operating subsidy and grants as well as $6,706,238 for state operating subsidy and grants. In addition, the QHA reported rental income for both federal and state programs totaling $5,114,295 for that period.

At the time of our audit, the QHA's computer operations were supported by 65 microcomputer workstations located at the QHA central office as well as the development sites. The QHA utilizes three file servers to provide both a local area network (LAN) and a wide area network (WAN). The QHA's main primary application system was a vendor-supplied, integrated application known as the Computerized Housing Authority System (CHAS). The CHAS application provides data processing functions using a module-based system for accounts payable and accounts receivable. The CHAS application system does contain a general ledger function which the QHA does not utilize since this

financial procedure is performed by a fee accountant. In addition, the QHA utilizes Windows-based applications for its fixed-asset inventory, rental information, and tenant applications.

The Office of the State Auditor's examination was limited to a review of certain IT general controls over and within the QHA's IT environment and selected financial-related controls.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Scope

From September 23, 2003 through April 5, 2004, we performed an audit of selected information technology (IT) related controls at the Quincy Housing Authority (QHA) for the period covering July 1, 2002 through April 5, 2004. The scope of our audit included an evaluation of IT-related controls pertaining to organization and management, physical security, environmental protection, system access security, inventory control over IT-related assets, disaster recovery and business continuity planning, and on-site and off-site storage of backup copies of magnetic media. In addition, we examined controls over the security and disposal of confidential records. Our audit scope also included an examination of selected financial-related areas pertaining to controls over the maintenance of operating reserve accounts, procedures for preparing and filling vacant housing units, the maintenance of a waiting list, and payroll administrative procedures.

Audit Objectives

Our primary objective was to determine whether adequate controls were in place and in effect for selected functions in the IT processing environment. We sought to determine whether the QHA's IT-related internal control framework, including policies, procedures, practices, and organizational structure, provided reasonable assurance that IT-related control objectives would be achieved to support business functions. We sought to determine whether adequate physical security and environmental protection controls were in place and in effect to prevent unauthorized access, damage to, or loss of IT-related assets. Our objective regarding system access security was to determine whether adequate controls were in place to ensure that only authorized personnel had access into the QHA's automated systems. Further, we sought to determine whether QHA management was actively monitoring password administration.

We sought to determine whether adequate controls were in place and in effect to provide reasonable assurance that IT-related assets were properly recorded and accounted for and were safeguarded against unauthorized use, theft, or damage. We also determined whether the QHA had an effective business continuity plan that would provide reasonable assurance that mission-critical and essential IT-related operations could be regained within an acceptable period of time should a disaster render the computerized functions inoperable or inaccessible. In addition, we sought to determine whether the QHA had adequate procedures for on-site and off-site storage of backup media to support system and data recovery objectives. A further objective was to determine whether adequate controls over the security and disposal of confidential records were being exercised at the QHA to meet the regulations promulgated by the Office of the Secretary of Commonwealth.

Regarding our examination of financial-related controls, we sought to determine whether QHA management had adequate controls in place and in effect to ensure compliance with Department of Housing and Community Development (DHCD) regulations concerning the maintenance of adequate operating reserve balances, tenant selection, and the preparing and filling of vacant housing units. In addition, we sought to determine whether QHA management had adequate controls in place over payroll administration.

Audit Methodology

To determine the audit scope and objectives, we conducted pre-audit work that included obtaining and recording an understanding of relevant operations, performing a preliminary review and evaluation of certain IT-related internal controls, and interviewing senior personnel. To obtain an understanding of the internal control environment, we reviewed the QHA's organizational structure and primary business functions. We performed a high-level risk analysis and assessed the strengths and weaknesses of the internal control system for selected activities, and upon completion of our pre-audit work, we determined the scope and objectives of the audit.

Regarding our examination of organization and management, we interviewed senior management, obtained, reviewed, and analyzed existing IT-related policies, standards, procedures, and QHA's organizational structure.

To evaluate physical security, we interviewed management and security personnel, conducted walk-throughs, observed security devices, and reviewed procedures to document and address security violations and/or incidents. Through observation, we determined the adequacy of physical security controls over areas housing IT equipment. We examined the existence of controls such as office door locks, remote cameras, and intrusion alarms. We determined whether individuals identified as being authorized to access areas housing computer equipment were current employees of the QHA and that these areas were restricted to only authorized personnel.

To determine the adequacy of environmental controls, we conducted walk-throughs and evaluated controls in selected areas in order to assess the sufficiency of documented control-related policies and practices. We examined the areas housing IT equipment at the QHA to determine whether IT resources were subject to adequate environmental protection. Our examination included a review of general housekeeping; fire prevention, detection, and suppression; heat detection; uninterruptible power supply; emergency lighting and shutdown procedures; water detection; and humidity control and air conditioning. Audit evidence was obtained through interviews, observation, and review of relevant documentation.

Our tests of system access security included a review of procedures used to authorize, activate, and deactivate access privileges to the QHA file servers through the microcomputer workstations located at

the QHA. To determine whether only authorized employees were accessing the automated systems, we obtained a system user list from QHA for individuals granted access privileges to the automated systems and compared it to the current personnel listing. We performed a test of user profiles and access privileges for all employees versus individual job functions and responsibilities. We reviewed control practices regarding logon ID and password administration by evaluating the extent of documented policies and guidance provided to the QHA personnel. We determined whether all employees authorized to access the automated systems were required to change their passwords periodically and, if so, the frequency of the changes.

We reviewed inventory control procedures for IT-related items, by determining whether adequate controls were in place and in effect to properly safeguard and account for IT resources. We examined DHCD policies and procedures regarding fixed-asset inventory to determine whether the QHA was in compliance with all regulations. We conducted a 100% test of the QHA's inventory listing of 232 IT-related items and examined the inventory record for identification tag number, location, description, and historical cost.

To assess the adequacy of business continuity planning, we determined whether any formal planning had been performed to resume computer operations should the network application systems be inoperable or inaccessible. In addition, we determined whether the criticality of application systems had been assessed, and whether risks and exposures to computer operations had been evaluated. Further, to evaluate the adequacy of controls to protect data files through the backup of on-site and off-site magnetic media and hardcopy files, we interviewed QHA staff regarding the creation and storage of backup copies of computer-related media.

To verify whether adequate controls were in place to safeguard and dispose of confidential records, we examined policies and procedures, conducted interviews with QHA employees, and observed the areas used to store confidential records.

To determine whether QHA had policies and procedures in place and in effect over the tenant selection process, we interviewed senior management and reviewed selected tenant files to verify that tenants were selected in accordance with DHCD guidelines. To assess whether the QHA was adhering to DHCD procedures for preparing and filling vacant housing units in a timely manner, we performed selected tests to determine the unit turnaround time for vacancies.

To determine that the QHA was maintaining the minimum and maximum operating reserve account balances as required by DHCD, we examined a thirty-month period to determine an average monthly reserve balance. We then compared this average balance to the required minimum balance promulgated by DHCD for all housing authorities to determine whether the QHA was in compliance.

To assess whether QHA had policies and procedures in place and in effect over payroll administration, we examined QHA management procedures regarding employee timesheets and leave records. In addition, we performed selected tests to determine the validity and integrity of the payroll by comparing the payroll list to a QHA employee list and reviewing payroll processing controls.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) of the United States and generally accepted industry practices. Audit criteria used in the audit included management policies and procedures and control guidelines outlined in Control Objectives for Information and Related Technology (CobiT), as issued by the Information Systems Audit and Control Association, July 2000.

Subsequent to our formal exit conference, we also met with members of the QHA board of directors and DHCD officials connected with the Authority.

AUDIT CONCLUSION

Based on the results of our audit, we believe that internal controls in place at QHA provided reasonable assurance that IT-related activities would be provided in a manner that would meet control objectives with respect to physical security, environmental protection and the accounting of IT-related resources. We found that controls over physical security and environmental protection controls were being exercised over the file server room and in the surrounding offices housing computer equipment. In addition, our audit revealed that the QHA's IT-related assets were properly accounted for. However, our audit revealed that IT organization and management controls needed to be implemented or strengthened to help ensure that the IT environment will be sufficiently controlled to meet business objectives. Specifically, we found that formal, documented IT policies and procedures should be enhanced and, in some cases, developed. In particular, controls pertaining to system access security, disaster recovery and business continuity planning and off-site storage of computer-related media needed to be strengthened. Regarding our examination of financial-related controls, we found weaknesses related to the maintenance of adequate operating reserve account balances and the management of unit vacancies.

Our review of the QHA's internal control structure indicated that senior management was aware of the need for internal controls. We determined that there was a defined organizational structure for IT operations, an established chain of command, clear assignment of responsibilities, and documented job descriptions. With respect to appropriate use of information technology, we determined that the QHA had promulgated adequate written policies and procedures regarding e-mail and Internet use. However, QHA needed to improve documented controls by developing more specific control policies, practices and operating procedures regarding physical security and environmental protection, logical access security and password administration, business continuity planning, and off-site storage.

We found that QHA had implemented adequate physical security controls to provide reasonable assurance that only authorized persons could access the file server room and other areas housing IT-related equipment. In addition to the controls noted above, our audit confirmed that other important physical security controls were in place at the eight development sites. We found that access to the individual business offices at the various sites were restricted to QHA personnel.

Our audit indicated that adequate environmental protection, such as temperature controls, smoke detectors, fire alarms, hand-held fire extinguishers, and an uninterruptible power supply (UPS) to prevent loss of data should power suddenly fail, were in place in the central office to prevent damage to, or loss of IT-related resources. However, we recommend the QHA management consider posting emergency shut down and evacuation procedures in the file server room as well as at the development sites. We found

good housekeeping procedures in place within the file server and other areas housing IT-related equipment in that they were found to be neat, clean, and in good order.

With respect to system access security, our audit disclosed that the processes for granting and recording authorization and activating logon IDs and passwords were appropriate. However, control practices regarding access security policies and procedures, and periodic changes of passwords needed to be improved. Our audit indicated that passwords were not being changed periodically and there were no minimum requirements for password composition. We found that some individuals had only a total of three alpha characters for their password. We recommend that QHA evaluate the required frequency of password changes and implement appropriate mechanisms to ensure that passwords have a minimum of eight alpha/numeric characters.

With respect to IT-related fixed asset inventory control, we found that the QHA was adhering to the policies and procedures promulgated by DHCD. Our test of the QHA's inventory listing of 232 IT-related items revealed that the items were locatable, properly accounted for and tagged. We believe that the IT-related inventory record could be enhanced by including acquisition dates and historical cost figures for all equipment and conducting annual reconciliations of physical inventory records. The Authority is in the process of implementing a new IT inventory control system.

With regard to system availability, we found that the QHA had neither performed a criticality assessment of its mission critical applications nor developed and documented a comprehensive business continuity plan. Because a test of the current recovery strategy had not been performed, we recommend that the QHA test its business continuity plan to assess its viability and establish a process for routinely updating the plan based on changes to the technology, business processes, or staffing. The QHA should ensure that all personnel responsible for business continuity tasks and activities be clearly identified and adequately trained. Further, the plan should detail the assigned tasks and responsibilities to be completed and by whom. Given the absence of comprehensive recovery plans and the dependence of QHA on the CHAS application system to perform its mission-critical business functions, a significant disaster impacting the QHA's automated systems for an extended period, specifically the file server on which the CHAS application database resides, would affect the QHA's ability to regain critical IT operations, such as processing tenant applications and accounting for rent monies and work orders. We recommend that QHA aggressively pursue the development of a comprehensive business continuity plan.

We found that although on-site storage was being provided for the QHA's application systems, the policies and procedures for off-site storage of backup copies of magnetic media needed to be strengthened. Our audit disclosed that a QHA employee was taking backup media to their personal residence for storage. We strongly urge QHA management to find a secure off-site location to store its backup computer-related media.

Regarding the disposing of confidential records, we found that QHA was following established policies and procedures promulgated by the Office of the Secretary of State. Specifically, we found the QHA was adhering to M.G.L. c. 221, section 27A permitting the destruction of records as well as the disposal of records policy no.17/76 promulgated by the Secretary of the Commonwealth.

Regarding our examination of financial related areas at the QHA, we found significant problems with maintenance of minimum and maximum reserve amounts promulgated by DHCD. Specifically, we found that for a period of thirty months beginning July 2001 until December 2003, QHA operated below the minimum reserve amount by a monthly average of $505,318. As a result of QHA operating well below the minimum operating reserve amounts, DHCD has lowered the management rating of the QHA, hindering the Authority from making major renovations to maintain its existing available housing units.

Our review of the QHA's vacant unit turnaround time for fiscal year 2003 disclosed that the Authority lost the opportunity to earn approximately $181,000 in potential rental income by not filling vacant units on a timely basis. As a result, the Authority has not maximized its rental income and may have deprived needy citizens of housing.

During our review of policies and procedures in place and in effect over payroll administration, nothing came to our attention to indicate control weaknesses. Our review of payroll records indicated that there was adequate accountability, as each employee was required to submit a timesheet, signed by his/her immediate supervisor, indicating hours worked and vacation, sick or personal time used.

AUDIT RESULTS

1. IT Organization and Management

Although our audit revealed that QHA had certain IT-related general controls in place, controls needed to be strengthened to ensure that the staff has sufficient guidance for performing IT-related functions. At the time of our audit, the QHA did not have documented and approved policies and procedures in place to adequately address IT functions and to provide reasonable assurance that control and business objectives would be achieved for physical security, system access security, environmental protection, IT-related fixed assets, storage of backup copies of on-site and off-site magnetic media, and business continuity.

Formal documentation of IT-related policies and procedures provides a good basis for ensuring that desired actions are taken and that undesired events are prevented or detected and, if detected, that corrective action is taken in a timely manner. Documented policies and procedures also assist management in training staff, serve as a good basis for evaluation, and increase communication among personnel to improve operating efficiency and effectiveness. Clearly, well-trained personnel develop a better understanding of their duties and improve their levels of competence when documented procedures are followed. The absence of formal standards and policies leads employees to rely on their individual interpretations of what is required to be performed or properly control IT-related activities and systems. In such circumstances, management may not be adequately assured that desired actions will be taken.

The failure of QHA to provide documentation of policies, procedures and IT internal controls, and to require audit and management trails seriously undermines the auditability of the QHA's IT environment and systems.

Recommendation:

We recommend that the Quincy Housing Authority document IT-related policies and procedures in order to provide sufficient guidance for IT operations and related activities. The development of documented policies and procedures should be focused on providing a control structure for managing IT processes and activities throughout the Authority. We further recommend that QHA administrators develop and document procedures to ensure adequate monitoring and evaluation of the adequacy and effectiveness of documented IT internal control systems.

Auditee's Response:

The QHA recognizes that formal documentation of IT-related policies and procedures provides a good basis for ensuring that desired actions are taken and that undesired events are prevented or detected, and, if detected, that corrective action is taken in a timely manner. The QHA does have some formal documentation of IT-related policies and procedures, including a Schedule of Computer Room Authorized Personnel, Computer Room Policies and Procedures, and a Computer Use Policy, which are distributed to appropriate staff. The QHA will work to ensure formal documentation of other IT-related policies and procedures, such as Server Back-up Procedures, Disaster Recovery Procedures, and Business Continuity Procedures. These policies and procedures will focus on providing a control structure for managing IT processes and activities throughout the Authority.

Auditor's Reply:

Documented controls, policies, and procedures provide a framework to guide and direct staff in the discharge of their responsibilities. The nature and extent of the documented control procedures also needs to accommodate staff experience, competency and knowledge. The development of documented policies and procedures for the Authority's IT environment should take into account any changes to QHA's IT infrastructure and regulatory requirements.

2. Business Continuity Planning and Off-Site Storage

We determined that the QHA had not developed a formal, comprehensive disaster recovery and business continuity plan for restoring processing functions in the event that automated systems were rendered inoperable or inaccessible. We acknowledge that, as of the end of our fieldwork, the QHA was aware of the need for business continuity planning. However, at the time of our audit, we determined that a business continuity plan had not been approved or implemented.

A business continuity plan should document the QHA's recovery strategies with respect to various disaster scenarios. Without a comprehensive, formal, and tested recovery strategy for the QHA's various application systems, the QHA might experience delays in re-establishing the processing of mission-critical functions such as Tenant Files and Accounts Receivable should a disaster occur. The lack of a detailed, tested plan to address the resumption of processing by the LAN and microcomputer systems might render data files and software vulnerable should a disaster occur. If the LAN were damaged or destroyed, the QHA would lose mission-critical, essential, and confidential data, including tenant medical and financial information.

The objective of business continuity planning is to help ensure timely recovery of mission-critical functions, should a disaster cause significant disruption to computer operations. Business continuity planning for information services is part of business continuity planning for the entire organization. Generally accepted business practices and industry standards for computer operations support the need for

the QHA to have an ongoing business continuity planning process that assesses the relative criticality of information systems and develops appropriate contingency and recovery plans. To that end, QHA should assess the extent to which it is dependent upon the continued availability of information systems for all required processing or operational needs and develop its recovery plans based on the critical aspects of its information systems.

Although we found on-site storage of backup media to be adequately controlled, our audit disclosed that the QHA needed to strengthen controls over off-site computer backup media for its application systems. Contrary to sound business practices for providing appropriate controls for off-site storage of backup media, we found that an employee of the QHA was taking backup media for the QHA's application systems to the employee's personal residence. Since we could not validate the security over the off-site location, there is no assurance that the backup media would assist in recovery efforts. The QHA should perform a risk analysis of the systems and clearly understand the impact of lost or reduced processing capabilities.

Recommendation:

We recommend that QHA management establish a framework of procedures to ensure that the criticality of all automated systems is evaluated and that business continuity planning is assessed for all system applications. We recommend that senior management and key users review the information technology environment and perform a criticality assessment and risk analysis of all automated systems used by QHA. Based on the results of the assessment, QHA should proceed with the development of a written business continuity plan for their mission-critical and essential functions.

Once the plan has been developed, it should be tested, then periodically reviewed and updated for any changing conditions. The QHA should specify the assigned responsibilities for maintaining the plan and for supervising the implementation of the tasks documented in the plan. Management should specify who should be trained in the implementation and execution of the plans under all emergency conditions and who will perform each required task to fully implement the plans. Further, copies of the completed business continuity and user area plans should be distributed to all appropriate staff members. A copy of the plan should also be kept in a secure, off-site location.

Regarding the off-site storage of computer media backup, we recommend that QHA management utilize one of the development sites to serve as the off-site location and to terminate the practice of storing the backup tapes at an employee's personal residence.

Auditee's Response:

The QHA will work to develop, enhance and strengthen its IT policies and procedures with regard to disaster recovery, business continuity planning, and off-site storage of computer-related media. Although the QHA does not currently have a written disaster recovery plan, or business continuity plan, the QHA has considered disaster recovery and business continuity on an ongoing basis. The QHA does on a daily basis back up both the CHAS Database Server and the Network Service and requires that the back up tapes be stored off site. Although the QHA does lack a written recovery plan, a significant disaster impacting the QHA's automated systems would not affect the QHA's ability to regain critical IT operations, such as processing tenant applicants, accounting for rent monies and work orders, as the QHA does back up daily and assures that the back-up tapes are stored off site. The back-up tapes are currently being maintained at the QHA's Finance Department located at 95 Martensen Street. Further, the QHA has adequate resources at eight separate sites to assure continued operations in the event of a fire or other disaster at one specific location. However, the QHA will assure that the plans and policies are incorporated into a formal Disaster Recovery, Business Continuity Plan.

Auditor's Reply:

We acknowledge that the Authority is aware of the need for business continuity planning for its mission-critical and essential application systems. However, we urge QHA management to work toward developing a comprehensive business continuity plan. We recommend that recovery plans and procedures be established to address business continuity planning, and be periodically reviewed and updated as necessary. This is especially important in the future as the Authority increases its reliance on information technology in performing its primary business functions.

3. System Access Security

Our audit revealed that system access security controls over QHA's local area network needed to be strengthened to ensure that only authorized users have access to the system. We found that although QHA management had limited access security policies in place, there were no policies or procedures in place requiring users to change their passwords on a regular basis. Our audit found that users were not required to have minimum composition length passwords, and as a result, we found users with three letter passwords having access to the network. We found that QHA had limited written policies and procedures in place to address authorization and activation of system users. However, there were no written IT policies and procedures in place to notify QHA's IT staff when an individual terminated employment at the QHA, and no written notification was being given from the QHA's Personnel Department of changes in employee status (e.g., terminations, leaves of absences, or transfers). Although

our audit tests revealed that each user was an authorized employee of QHA, adequate procedures were not in place for administering and monitoring system access security controls.

The failure to change passwords for user accounts in a timely manner places the QHA at risk of unauthorized use of established privileges (using another individual's user account having higher access privileges) or to unauthorized access. Formal policies and procedures for system access security should be in place to address password administration, activation and deactivation of access privileges, and monitoring of user access. The failure to develop comprehensive formal system access security policies and procedures and implement adequate controls practices places QHA's automated systems and data at risk of unauthorized access, modification, or loss.

The Commonwealth of Massachusetts "Internal Control Guide for Departments" promulgated by the Office of the State Comptroller states, in part, "an employee's password should be changed or deleted immediately upon notice of his/her termination, transfer, or change in responsibility." In addition, computer industry standards advocate that policies and procedures for system access security be documented and approved to provide a basis for proper protection of information assets. The policies and procedures should address authorization for system users, development of user IDs and passwords, authentication of users, establishment of audit trails, notification of changes in user status, frequency of password changes, and procedures to be followed in the event of an unauthorized access attempt or unauthorized access. The policies and procedures should also address emergency access guidelines for critical applications to ensure that under emergency or disaster recovery situations, only authorized access is granted.

Recommendation:

QHA should establish written policies and procedures to address password administration, including the length and composition of passwords (a minimum of eight alpha/numeric characters), frequency of password changes, guidelines for access security, establishment of audit trails, and procedures to be followed in event of unauthorized access attempts or unauthorized access. The Authority should develop an overall security framework restricting access to individuals on a need to know basis as well as a complete set of policies and procedures including authorization changes to user profiles. We also recommend that procedures be established requiring written notification from the QHA's Personnel Department of changes in personnel status to the IT staff to help ensure timely deactivation of access privileges.

Auditee's Response:

> *The QHA will work to enhance and strengthen its IT policies and procedures with regard to system access security and password administration. The QHA acknowledges the importance of requiring users to change passwords periodically and ensuring that*

mechanisms are in place that would require that passwords be a minimum of eight alpha/numeric characters. The QHA has related this audit recommendation to its software vendor, which is currently in the process of implementing this change.

Although the current informal procedures have been adequate to provide IT system security, the QHA will adopt the procedure of formal notification to IT staff when an individual staff member changes employment status. It will also establish written IT policies and procedures to address password administration, including the length and composition of passwords, frequency of password changes, guidelines for access security, establishment of audit trails, and procedures to follow in the event of unauthorized access attempts or unauthorized access.

The QHA already has an overall security framework restricting access to individuals on a need-to know basis, however, these policies will be documented in writing.

Auditor's Reply:

While we agree that the Authority has certain access security controls in place, a comprehensive security plan requires detailed documentation clearly identifying levels of security and controls for all staff, application systems, and data.

4. Maintenance of Adequate Operating Reserve Accounts

Our audit revealed the QHA has not maintained adequate operating reserves for the State Project 4001, which provides housing for families, the elderly and handicapped persons. Our audit revealed that minimum operating reserve amounts as required by DHCD were not being met. Our examination revealed that for the thirty months between July 2001 and December 2003, the QHA under-funded the operating reserve account by an average monthly total of $505,318. The operating reserve account has been under-funded by amounts ranging from a low of $385,389 in July 2003 to a high of $660,454 in April 2003.

As a result of QHA operating well below the minimum operating reserve amounts, DHCD has lowered the management rating of the Quincy Housing Authority from an "Acceptable Performance" to a "No Rating" status effective December 23, 2003. A "no rating" status as defined by DHCD requires the QHA management to present timetables and work plans to address current deficiencies, changes in management structure, and assurance of strong leadership in the hiring of a new, qualified director. The Authority is also hindered in making major capital improvements to maintain its existing available housing units.

The Department of Housing and Community Development serves as the oversight agency to local housing authorities in the Commonwealth. The DHCD in the 'Fiscal Year 2004 Budget Guidelines"

issued September 2003, clearly states that each housing authority is to maintain minimum and maximum operating reserves as outlined in the calculations delineated in the guidelines.

Our examination of documents from DHCD to QHA management revealed that recent QHA management decisions might have contributed directly and indirectly to the financial hardship facing QHA. These decisions were:

- The QHA's adoption of an early retirement program and the resulting costs in FY 2003 resulted in extra costs to the QHA in the form of increased retirement assessments.
- According to DHCD, the maintenance labor costs are higher than comparable sized local housing authorities.
- The QHA's failed effort to obtain a federal Hope VI grant to demolish and re-build housing units for the Snug Harbor development. This management decision contributed to delays in much needed capital improvements and in filling vacancies.

Recommendation:

We recommend that QHA management, in conjunction with DHCD, develop a comprehensive financial recovery plan to address the problems that have contributed to the under-funding of its operating reserve accounts.

Auditee's Response:

> *On April 23, 2004, senior QHA staff met with DHCD staff and presented the Authority's written proposal for addressing the issues that are impacting on its operating reserves, a copy of which is attached hereto. (see appendix A, page 20)*

Auditor's Reply:

We acknowledge that QHA management and DHCD are making efforts to address serious financial issues at the Authority. We encourage both QHA and DHCD management to continue progress on a long-term financial recovery plan to stabilize the financial condition and eventually upgrade the QHA management rating from a "no rating " to "acceptable." Based on a meeting that we had with DHCD officials on June 9, 2004 regarding QHA's financial condition, actions the Authority and its board of directors should consider to improve their management rating would be to:

- Appoint a permanent Executive Director with extensive housing management experience that would assist in having the Authority function as a cohesive entity, with all divisions working toward a primary objective.
- Perform a staff analysis to ensure that both administrative and maintenance needs of the QHA are being addressed.

- Make any necessary changes to the method of maintaining its waiting list to assist in filling vacant units in a more timely manner and maximizing rental income.
- Communicate on a regular basis with DHCD to strengthen the working relationship for the betterment of the housing stock in the City of Quincy.

We will review this issue during our follow-up audit.

5. Management of Unit Vacancies

Our review of the QHA's vacant unit turnaround time for fiscal year 2003 disclosed that the Authority lost the opportunity to earn approximately $181,000 in potential rental income by not filling vacant units on a timely basis. As a result, the Authority has not maximized its rental income and may have deprived needy citizens of housing.

The Department of Housing and Community Development's (DHCD) Management Incentive Program for Massachusetts Housing Authority, effective July 1, 1992, requires each housing Authority to take adequate steps to maintain the lowest possible vacancy rate. DHCD guidelines stated that a reasonable time frame for turning around vacant units is 21 days.

Our audit revealed that QHA management was taking an average of 371 days over the DHCD time frame guideline to turnaround and fill fifty Chapter 200 units, resulting in the loss of approximately $176,000 annually in potential rental income. An additional loss of income totaling $5,000 for the Chapter 667 Elderly program also existed for vacant unit turnaround.

A major financial issue resulting in lost revenue for the QHA was the impact of delays in the modernization and capital work at the Chapter 200 development, Snug Harbor. The QHA's effort to obtain a federal Hope VI grant delayed movement in capital improvements. DHCD had discouraged these efforts because of the uncertainty of obtaining funding from the grant. Inadequate funding contributed to lengthening both total construction time and vacancy periods for many of the unoccupied units.

Another contributing factor to the vacancies at Snug Harbor has been the high cost of shelter for tenants. Tenants currently pay 27% of their income to rent plus their utilities, while tenants at the federal development pay 30% of their income, which includes their utilities. Therefore, when a unit becomes available in a federal development, state development tenants move, thus exacerbating the vacancy problem. DHCD is looking for the implementation of needed reforms in tenant selection at QHA, primarily a single federal and state waiting list for all applicants. The QHA is working to consolidate their waiting lists to a single waiting list in an effort to reduce the vacancy problem and stabilize the tenant population within Snug Harbor.

Because of the delays in leasing the units on a timely basis, eligible applicants have been denied, at least temporarily, subsidized housing. Furthermore, the loss of $181,000 in potential annual income has an impact on the operating reserves of the Authority, which can be used to improve housing units.

Recommendation:

The Authority should review its policies to ensure that all vacant units are occupied within DHCD's 21-day turnaround guideline, to monitor vacancies to ensure that units are available for occupancy in a timely manner, and should continue to work in conjunction with DHCD to develop and implement a financial recovery plan to ensure that adequate housing is provided to needy citizens on a timely basis.

Auditee's Response:

> *The QHA addresses the matter of unit vacancies in its April 23, 2004* (see Appendix B), *response to DHCD. It discusses: (1) the mold and mildew problems in its family units (also see attached QHA's April 10, 2004, Study on Mold and Mildew in State Family Housing Units); (2) the fact that the QHA's state family development is second in size only to the state-aided family housing development administered by the Boston Housing Authority; yet the QHA receives the same subsidy per unit as all of the other housing authorities in the state, excluding Boston; and (3) The QHA has experienced a transfer of tenants from its Snug Harbor Development, where tenants pay 27 percent of their income in rent plus the cost of utilities, to its adjacent federal family housing development, where tenants pay only 30 percent of their income, which includes the cost of utilities.*
>
> *The QHA is continuing discussions with DHCD regarding the release of capital funding to address comprehensively the mold and mildew situation and has adopted a single-family waiting list to help alleviate the migration of tenants from state to federal public housing. In addition, it has contracted with a consultant to perform an assessment of its maintenance operations.*

Auditor's Reply:

We understand that for several vacant units, the units had developed mold and mildew problems that prevented QHA from renting these units. The lack of available funds for renovations and routine maintenance improvements due to a low operating reserve balance has exacerbated this problem. Subsequent to our formal exit, our discussions with the Authority's Board of Directors and senior DHCD officials have indicated that QHA will initiate a strategy that DHCD has outlined as necessary to raise the Authority's management rating from "no rating" to "acceptable." We continue to urge QHA management to work with DHCD on a financial recovery plan to address these issues.

Auditee Attachments

The following are attachments that are referenced in the Authority's responses contained within the text of our report.

APPENDIX A

QUINCY HOUSING AUTHORITY

80 Clay Street

Quincy, Massachusetts 02170-2799

JOHN G. MATHER
Executive Director

JACQUELYN S. LOUD
Assistant Director

August 23, 2002
Mr. Mark Slotnick
Asst. Director of Public Housing and Rental Assistance
Mass. Dept. of Housing and Community Development
One Congress St., 10th floor
Boston, MA 02114

Re: Quincy Housing Authority Pension Assessment – Actuarial Study

Dear Mr. Slotnick:

Mr. Mather has asked that I forward a copy of the above report to you, together with a brief explanation. He is out of the office today, but did not want to delay getting the enclosed information to you.

After the Quincy City Hospital was privatized, the Quincy Housing Authority's pension assessment increased by more than $200,000. This increase was caused, primarily, by a decrease in the City's payroll of approximately 25%. After receiving the increased assessment, the Authority decided to conduct an actuarial study of the costs of Authority employee pensions. The actuarial study results have been issued and I am enclosing a copy of the report for your information. Although the privatization of the City hospital and ensuing increase in the QHA pension bill brought this issue to the forefront, the report shows that the privatization of the hospital is only a part of a much larger problem.

The Quincy Housing Authority, like other Massachusetts housing authorities, participates in the M.G.L. c. 32 public retirement system. According to that statute, a housing authority is assigned membership in the local retirement system which serves its municipality. As the QHA is located in the City of Quincy, it is assigned membership in the City of Quincy Retirement system, which is governed by the Quincy Retirement Board. There are two employers in this particular system, the Quincy Housing Authority and the City of Quincy. The pension costs of each employer are assessed using the "payroll method", pursuant to c.32. That method requires that all pension costs be apportioned according to an employer's percentage of the total system payroll. As you can see from the enclosed study, the payroll method of allocating pension costs, in this case, has no relation to the Authority's actual costs to the system. This method actually shifts a substantial portion of the costs of City of Quincy employee pensions onto the Quincy Housing Authority, pensions costs which should not be assigned to the Authority.

August 23, 2002
Mr. Mark Slotnick
Asst. Director of Public Housing and Rental Assistance

As shown by the enclosed study report, in fiscal 2002, although the actuarial (actual) cost of the Authority's employees to the pension system was $333,806, the Authority was assessed $745,060. And in fiscal 2003, when the Authority's actuarial costs are $420,459, the Authority's assessment is $966,516. When we met with the actuary to discuss his report, he indicated that the Authority has been paying from 25% to 50% more than its actual pension costs since approximately 1988, when there was a change in the pension law.

The report demonstrates that the payroll cost allocation method results in a gross inequity which likely affects other Massachusetts public housing authorities, unless they are fortunate enough to be a participant in one of the nine local retirement systems which use the actuarial (actual) method of pension cost allocation. When one considers that this payroll cost allocation likely determines the pension bills of most Massachusetts housing authorities, the financial implications are enormous. It is anticipated that this problem is only going to get worse as pension costs throughout Massachusetts are expected to rise even further during the next few years.

The Authority has requested a meeting with the Quincy Retirement Board and the Mayor of Quincy to discuss these issues. The Quincy Housing Authority has formally requested that the Quincy Retirement Board change the pension cost allocation method to an actuarial (actual cost) method. The actuarial method of pension cost allocation assesses the actual costs of employee pensions to each employer. It would seem that the enclosed report clearly demonstrates the inequity caused by the payroll allocation method and that fairness would require that the inequity be resolved.

Mr. Mather will be contacting you shortly to discuss this matter after you have had a chance to digest the enclosed information. In the meantime, if I can help you with any further information, please let me know.

Very truly yours,

Patricia F. Hunt
General Counsel

Quincy Housing Authority Pension Assessments

The Quincy Housing Authority is one of the two employers within the Quincy Retirement System, a M.G.L. c. 32 pension system. The other employer is the City of Quincy.

1

In October of 1999, the Quincy City Hospital was privatized pursuant to Chapter 94 of the Acts of 1999.

In FY 2002, the pension assessment of the Quincy Housing Authority increased from $531,881 to $745,060, an increase of $213,179, or 40%.

2

Before the privatization, the City of Quincy negotiated a "*Memorandum of Understanding between the City of Quincy and the Quincy Hospital Unions*". Among other things, it provided that upon the privatization of the hospital, each hospital employee would receive an additional two years of service in the retirement system and could buy an additional three years of service, without interest.

3

Payroll method of pension cost allocation

- M.G.L. c. 32, section 22(7)(c)(i) sets forth the "payroll" method of allocating pension system costs between the governmental employers in the system.
- The payroll of each governmental unit as of September 30th is used to determine the allocation of the system's pension costs for the next following fiscal year.
- Example: governmental unit has 10% of active payroll ⇨ results in 10% of allocation.

4

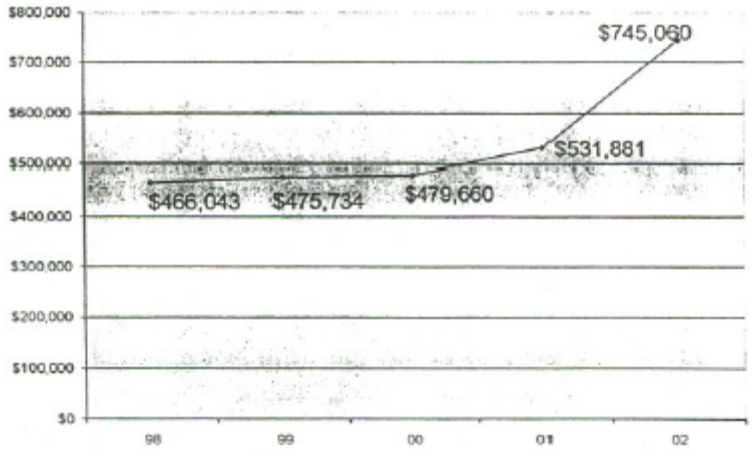
When the Quincy City Hospital was privatized and the hospital employees were removed from the City's payroll, the liability for the hospital employee pensions remained in the Quincy Retirement System.

- 9/30/99 hospital still in City's payroll for FY2001
- 9/30/00 hospital removed from City payroll for FY2002

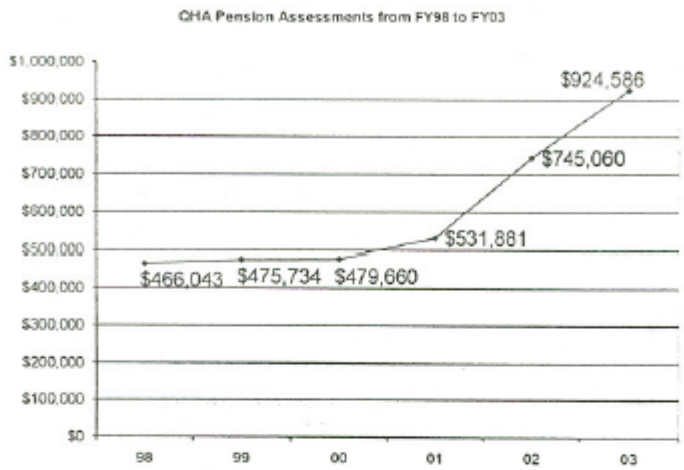
Pension Assessments	FY 2001	FY2002	Increase	Increase
Total System Assessment	$14,990,743	$15,716,481	$725,738	4.8%
City of Quincy	$14,458,862	$14,971,421	$512,559	3.5%
QHA	$531,881	$745,060	$213,179	40%

5

QHA Pension Assessments from FY98 to FY02



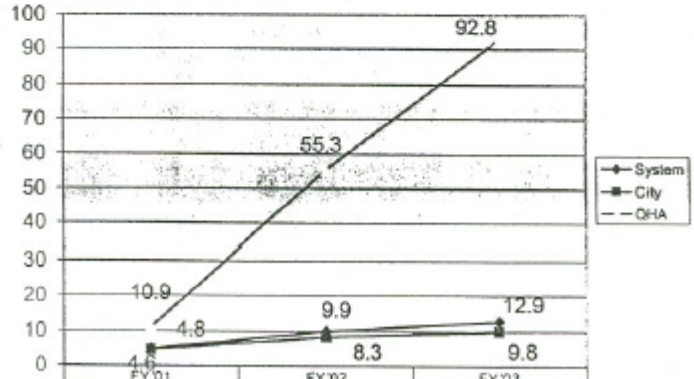
Until the hospital privatization, the QHA's pension assessments remained relatively stable. (It is noted that the QHA is separately billed for the costs of its early retirements. The City[6] receives no separate bill for hospital pension enhancements or City early retirements.)



FY 2003 resulted in another large increase in the QHA's pension assessment. (It appears from the June 21, 2002 Stone Report that in FY '03, the Quincy Retirement Board changed the funding schedule from 23 years to 17 years.)

7

Comparative Pension Increases
Percent above '00 Assessment



	FY'01	FY'02	FY'03
System	4.8	9.9	12.9
City	4.6	8.3	9.8
QHA	10.9	55.3	92.8

While the QHA's assessments shot up by 92.8% from FY'00 to FY'03, the entire system increase was 12.9% and the City's increase during the same period was only 9.8%.

8

After the QHA's pension assessments shot up so dramatically, the QHA looked for alternative methods of pension assessment:

–Actuarial method: each employer is assessed the actual costs of its own employees' pensions.

–Actuarial method is used by 13 retirement systems*.

–Actuarial method is allowed by PERAC when approved by all member units in the retirement system and local retirement board.

According to PERAC, the following retirement systems use the actuarial method of assessing pension costs among the governmental units: Middlesex; Plymouth County; Attleboro; Danvers; Haverhill; Marblehead; Natick; Peabody; Pittsfield; Reading; Salem; Shrewsbury and Taunton.

9

With the cooperation of the Quincy Retirement Board, QHA hired the Board's actuary, Stone Consulting, to prepare an actuarial allocation of the FY 2002 and FY 2003 pension costs.

10

- City of Quincy receives $2.5 million in CDBG funds each year from HUD.
- A Consolidated Plan is submitted on an annual basis to HUD. Such Plan is a means to meet the application requirements for the CDBG program.
- In its FY 02-03 Annual Plan component of its Consolidated Plan, the City listed the following at the top of its "Priority Housing Needs" – "Revitalize severely distressed public housing units located at Riverview and Snug Harbor Family developments in Germantown".
- QHA does not receive funding from City CDBG funds.
- Whenever a local public housing authority is designated "troubled" by HUD, the Consolidated Plan of that local government must include a "description of the manner in which the State or unit will provide financial or other assistance to such troubled agency in improving its operations to remove such designation."
- QHA is not now "troubled". The assessment of an additional $400,000 in pension costs this fiscal year and the failure to address the inequitable pension costs in the future would eventually cause such a designation. The QHA cannot afford to pay annual pension costs assessed by the "payroll" method (approximately 30% of its annual payroll); nor should it be required to divert its housing funds to do so when the costs are not the result of its own employee pensions.
- HUD officials have indicated they can find no precedent for reviewing/approving a municipality's Consolidated Plan when the troubled status of the local housing authority is the result of the municipality's failure to assume the costs of its own employee pensions.

17

- Massachusetts political and community leaders acknowledge that we are in an affordable housing crisis.
- Maintaining existing affordable housing and creating additional affordable housing is a priority.
- Since additional funding for affordable housing appears unlikely, scarce affordable housing funds should be used for affordable housing purposes.
- Public housing authorities provide housing for poor families and elderly within a community; few, if any, housing providers serve this population.
- Implementation of the "actuarial" method of pension assessment would provide a permanent solution to the inequitable pension assessments and would ensure that QHA housing funds are used to further affordable housing purposes and not diverted to subsidize the costs of another employer's employees.

18

APPENDIX B

TDD - No - 1-800-545-1833
Ext. 115
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(617) 770-2876

QUINCY HOUSING AUTHORITY

80 CLAY STREET
QUINCY, MASSACHUSETTS 02170-2799

JACQUELYN S. LOUD
Acting Director

April 23, 2004

Mr. Marc A. Slotnick
Associate Director
Public Housing & Rental Assistance
Department of Housing & Community Development
100 Cambridge Street, #300
Boston, MA 02114

Dear Mr. Slotnick:

This letter is in response to your letter of December 23, 2003, to John Mather, the Authority's recently retired Executive Director. I apologize for not responding sooner to your letter. As explained to Marty Robb, the Authority's Asset Management Specialist, much has transpired since Mr. Mather's retirement that is relevant to the issues set forth in your letter. In addition, a substantial amount of research has been undertaken in an attempt to understand the Authority's current status and how it got where it is today, so that its financial status can be improved. We appreciate DHCD's assistance in these matters.

As you know, I was appointed Acting Director, effective January 1, 2004. It was at that time that I became aware of Mr. Mather's letters to DHCD, dated November 24, 2003, and December 31, 2003, and of your letter to the Authority dated December 23, 2004. Before then, neither the Board of Commissioners nor I was aware that the Authority's management rating was at risk. We have reviewed the issues raised in your letter and other issues that have arisen subsequently, most notably, the presence of mold in the Authority's Snug Harbor units. We believe it is important to consider this information in reviewing the Authority's status, especially as it relates to vacancies in Snug Harbor.

Vacancies, Mold and Mildew Issues

As you may know, in February of this year, frustrated Authority tenants contacted the media regarding recurring mold and mildew in their units. The City Health Department became involved and tenants demanded immediate transfers. As a result, the Authority undertook a review to determine the extent of the mold problem and its possible causes to devise and implement immediate solutions for the affected families (transfers to units having no history of mold) and long-term solutions for the development. We undertook a review of unit inspection reports and other information available to us. (Please see the attached report on "Mold and Mildew Conditions in State

Family Housing Units", April 10, 2004.) We note that the federal family units do not have this mold problem.

> "Of the 400 apartments I was able to enter and inspect 323 of them. Of the 323 apartments, 160 of them had signs of mold and mildew growing in them. Most of the mildew was found in the bathrooms and bedrooms. In the bathrooms the mildew was located on the ceilings and around the window sills and trim. In the bedrooms the mildew was found on the baseboards, outside walls, at corners where ceiling meets wall, and on the window and window trim. In the other rooms, the mildew usually appeared at the baseboards and on the trim of the windows.
>
> "The only pattern of growth of the mildew was that it was mostly found in the bathroom, window trim, baseboards, and top corner of the walls. Most residents claim that it starts growing usually in the winter. It starts from the bottom and works its way up the surfaces. Also when you clean it off it takes about 2 months before it returns.
>
> "Most of the residents claim that this problem did not exist before the masonite siding was installed. There were exhaust fans added to the kitchen and bathrooms in an effort to draw out any excess moisture but they don't seem to be powerful enough to solve the problem. In addition to the moisture all ready in the units, there was evidence of leaky radiators and stained ceilings from roof leaks to complicate matters further.
>
> "Other items of concern (sic) is the terrible peeling ceiling paint problem and the inadequate heating system. I found that 73 units had a serious peeling ceiling problem. Residents claim that no matter how many times that they or the Q.H.A. paints the ceiling it starts to peel within 6 months time. Most residents claim of excessively high heating bills. The average bill for the winter list (sic) around $800 to $1000 per winter season. It was found that the insulation on the heating pipes were removed and never replaced. I'm sure that has something to do with it."
>
> *Taken from DHCD Report of Randy Waters to Bob Danilecki, dated October 27, 1993. A copy of this report is included as Exhibit 1 in the enclosed "Quincy Housing Authority Mold and Mildew Conditions in State Family Housing Units", dated April 10, 2004.*

That 1993 report could have been written today. As of April 16, 2004, there were a total of 63[1] vacancies in Snug Harbor, including apartments vacated by the tenants who complained of the presence of mold in February. (Attached is a copy of the vacancy report of April 16, 2004.) All of the vacancies were inspected. The units which are highlighted in green had observable mold. The units which are high-lighted in pink had what appears to be mold and require further investigation as to whether the substance

[1] It is noted that of the 63 vacancies, 10 were approved as "off-line" units by DHCD. Of those 10, 9 have been turned in for rental; however, all 9 of those units have mold or what appears to be mold. (There were originally 15 "off-line" units; 5 have been rented.) Additionally, of the 63 vacancies, 15 of them are in Phase One of the kitchen modernization job.

observed was, in fact, mold. Those that are set out in black did not have any appearance of mold on the date they were inspected. As you can see from the report, 19 of the 63 units have been turned in by maintenance for re-occupancy; however, only 4 of them have no evidence of mold. Those units have either been rented, accepted for rental by a particular family or are in the process of re-rental. Of the 63 vacancies, 47 units have mold or what appears to be mold. Only 16 of the 63 vacancies had no observable mold on the day they were inspected. (It is noted that although these units set out in black did not have visible mold on the dates they were inspected, they may have a prior history of mold or peeling paint which is an indicator of recurring mold.) At the present time, the Authority is directing its attention to turning over the units that do not have observable mold. The Authority would like to discuss with DHCD how to handle the turnover and re-occupancy of units that have a history of mold and whether the source of the mold should be eliminated before re-occupancy. Our experience has been, just as it was described by Mr. Waters in his 1993 report, that if the source of the mold is not eliminated, it will only reappear after it has been cleaned up.

A review of our records indicates that since 1993, the Authority has submitted requests for funding to address the chronic mold problem in the Snug Harbor family development. In its 1994 CARS (Condition Assessment Reports), the QHA reported the need for funding for the removal and replacement of the masonite siding and for the repair and replacement of roofs. In the 1998 CARS, the QHA listed as the top three modernization priorities: replace exterior siding and repair structural damage caused by water filtration in 64 buildings, replace all main roofs, replace windows in 64 buildings. Although CARS related to mold remediation were technically "awarded", not all of the awarded work has been "authorized" by DHCD. (Please see attached spreadsheet which shows the funding that has been awarded and that which has been authorized to proceed and the unexpended balance.) The work which the QHA was authorized by DHCD to undertake was undertaken and has been insufficient to remediate the cause of the mold and mildew problem. Although money for roof work was awarded pursuant to 1994 and 1998 CARS, only "low roof" work was authorized by DHCD in 36 buildings; the main roofs were not authorized until recently and only after the kitchen modernization project. The limited work that has been authorized by DHCD has not come near to solving the mold problem. Siding work that was authorized was very basic, almost cosmetic in approach. The old siding was stripped off, felt paper was applied and new siding was attached. No further work was authorized, such as insulation and improved ventilation. Regarding the roofs, the main roofs were and continue to be patched as necessary. Not replacing the main roofs insured that failures would continue and when discovered, merely patched to stop the leaks. Now that the main roof work has been authorized to proceed, the QHA Modernization Director has instructed that the design include reconfiguration of the roof framing and flashing at junctions where low roofs meet the building siding. The Director is hopeful that DHCD will be supportive of this approach. This work was not done when the low roofs were done and, as a result, runoff water continued to infiltrate the building causing damage and contributing to the mold and mildew problem. It is noted that DHCD authorized the kitchen modernization work to proceed before completing the main roof work and other work related to mold

remediation. The QHA now has units with modernized kitchens and unresolved mold issues. (It is noted that when modernization (capital) projects are authorized to go forward by DHCD, more often than not, insufficient funds are allocated for administering the grants, which further drains the Authority's operating budget. On the other hand, the federal capital grant program allows a more adequate allocation of funding for administering the grants as well as more discretion to the Authority in prioritizing its projects.)

The mold problem has exacerbated the vacancy problem. Vacancies are increased when tenants are transferred as a result of the presence of mold in their Snug Harbor units and vacancies that are turned in for rental have histories of recurring mold. We are concerned that mold will only reappear in these units after they are occupied. When we meet with DHCD staff, we would like to discuss how DHCD would like us to handle the rental of units that have a history of mold. We are concerned for the health of our tenants and know that DHCD is concerned as well.

It has become apparent from reviewing these issues that the Authority's maintenance burden has been increased as a result of the recurring maintenance issues caused by deferred modernization, such as peeling paint and plaster resulting from roof leaks, recurring mold from poor ventilation and building envelope issues. When the maintenance staff is diverted to tasks such as the repeated cleaning of mold and the repainting of walls and ceilings, time is taken from other needed maintenance tasks, such as vacancy turnover. The need for such maintenance tasks also increases the time it would ordinarily take to turn over a vacancy. This has all contributed to the Authority's vacancy problem.

We have attached an estimate from HUB Testing Laboratory for performing a "mold investigation" of the Authority's Snug Harbor units. (Exhibit 6 attached to "Mold Report".) We feel it is appropriate and necessary to undertake this or a comparable assessment to determine the extent of the problem and its causes so that a plan can be implemented for the immediate funding and eradication of the causes of the mold problem.

Other Vacancy Issues

The previous administration attempted to increase vacancy turnover by using the Authority's reserves to hire temporary workers. This has only led to the further depletion of the Authority's reserves to dangerously low levels. We are aware that we are required to maintain a certain level of reserves to provide cash flow and handle emergencies and that reserves should not be used to fund operating expenses. Upon my appointment, I immediately suspended the hiring of temporary workers from the union hall to supplement the vacancy workforce and implemented the layoff of those who had been hired prior to my appointment. That resulted in the following reduction in expenditures which should stop the depletion of Authority reserves:

Position	Weekly Salary	Hall Overhead	Weekly Total
Painter	1,008.40	516.40	1,524.80
Electrician	1,416.00	590.00	2,006.00
Laborer	848.00	368.00	1,216.00
Laborer	848.00	368.00	1,216.00

Quincy Housing Authority

Totals	$ 4,120.00	$ 1,842.40	$ 5,962.80

Although I do not agree with using reserves to fund operating expenses, I can understand why it was done. From the records, one can determine that there has been a chronic under-funding of needed Authority capital projects. These projects, such as roofs, were not frivolous projects; yet they were delayed and this resulted in an increased maintenance burden. Yet there was not an increase in operating funds to offset the increased burden. This under-funding has been ongoing. In approximately 1991, the Commonwealth changed the process for calculating housing authority operating subsidy. Under the new system, all LHA's operating budgets were consolidated (elderly with family) and each would receive the same per unit subsidy. Prior to the revised operating subsidy process, the operating budgets for elderly and family were separate and distinct, and were funded separately. The QHA had substantial reserves in its elderly program prior to this consolidation. Its family program was fairly healthy, yet, required a subsidy. When the consolidation took place, the elderly program, in essence, provided additional operating subsidy to administer the family program. Instead of addressing the fact that running the family development program is simply more costly than running the elderly program, the problem of inadequate subsidy for the family program was masked by the budget consolidation. While this budget consolidation could mask the family program subsidy problem for a while, it would not be a solution to the under-funding. When the budget consolidation was undertaken, no consideration was given to the fact that Quincy has the second largest family public housing development in the Commonwealth. Consideration has been given, however, to the Boston Housing Authority as described below.

As Mr. Mather indicated in his letter to you of December 31, 2003, the Quincy Housing Authority's Snug Harbor development is the second largest single state-aided family development in the Commonwealth, consisting of four hundred multiple-bedroom units. This state family development is second in size only to the state-aided family housing development administered by the Boston Housing Authority in South Boston. According to the Authority's financial consultants, the per-unit subsidy that the QHA receives for its developments is far less than the per-unit subsidy that Boston Housing receives. As Mr. Mather stated in his December 31, 2003 letter, "As the Snug Harbor development is the second largest State Aided public housing family development in the Commonwealth, it is an important housing resource to the Quincy Community and must be protected. I have always believed and have expressed my concerns that the Snug Harbor development does not receive adequate operating subsidy. The costs associated with operating Snug Harbor are no different that those compared to costs of operating family developments within the Boston Housing Authority. Quincy and other large housing authorities in Massachusetts have never received the same level of operating subsidies or the same percentage of modernization funds as does the Boston Housing Authority. As long as this inequity is allowed to continue and adequate subsidy and modernization resources are not provided, the conditions of the Snug Harbor development will remain a problem."

We mention this history and these funding issues, because as DHCD has indicated, the high number of Authority vacancies and draw-down of its reserves is not something that occurred overnight - a number of factors contributed to the current situation. The Authority is also in the process of procuring an outside consultant to conduct a "Comprehensive Maintenance Assessment". We are undertaking this examination to examine our maintenance service delivery process to ensure that maintenance services, especially vacancy turnover, are performed and delivered in an efficient and cost-effective manner.[2]

Hereafter, we offer responses to particular questions asked by DHCD.

Reasons for Tenant Vacating of Family Units

DHCD has requested an analysis of why tenants vacate the Snug Harbor development. In response to this request, we have reviewed the vacancies that occurred from April 1, 2003, to March 31, 2004. This review indicated that 42 residents moved out of Snug Harbor, with 9 moving to Riverview; 6 moving to elderly housing; 18 moving to private housing; 1 fire; 6 evictions; 1 deceased and 1 moved to 705. An additional 18 families were transferred from one Snug Harbor unit to another. Most of these transfers were the result of the kitchen modernization project. I understand that Mr. Mather discussed with DHCD at meetings last summer the issue of transferring tenants as a part of the modernization project. That transfer process has since stopped as have other transfers of tenants from Snug Harbor for other than medical or mold reasons. We also reviewed the Riverview (federal family public housing development with 180 units) vacancies during the same period and found that there were 15 vacancies: 6 evictions; 7 moving to private housing; 1 deceased; and 1 moved to 705.

Migration of Snug Harbor Tenants to Federal Public Housing

A change to the Authority's waiting list management is awaiting approval from HUD and DHCD. To change its waiting list management for public housing, the QHA was required to revise its federal Agency Plan, which requires newspaper advertising, Resident Advisory Board meetings, 45-day public comment period, and a public hearing. These things were done and the changes have been submitted to HUD and DHCD for approval. We note that DHCD indicates in its letter that the QHA should have imposed a 24-month residency requirement on Snug Harbor tenants for them to be eligible for the federal housing local preference. As previously explained to DHCD, federal regulations prohibit imposing any time period for eligibility for a federal residency preference. Further, it would be a violation of c.151B of the Mass. General Laws to discriminate against a person by reason of his/her having a housing subsidy. In other words, the Snug Harbor tenants cannot be required to do something that other applicants do not have to do in the processing of their applications for federal housing. Once the single waiting list is

[2] You mention in your letter that the Authority's labor rates are higher than average. We do not understand this comment as the QHA follows the DLI rates as they provide them to us each year (or as changes occur) by letter. Our research also indicates that our maintenance budget line item is not 29% higher than norm for comparable size authorities, as you have indicated in your letter. We respectfully request further explanation on this issue.

approved, it should reduce the vacancies caused when a Snug Harbor resident remains as an applicant on the federal public housing waiting list.

DHCD suggested that Snug Harbor tenants can reduce their overall housing cost burden by applying for fuel assistance. We have been informed that there is a $600 maximum benefit available per household per year. We have reviewed this issue and have determined that the average heating bill for a two-bedroom Snug Harbor unit is $1162; for three bedrooms, it is $1165; and for four bedrooms, it is $1314. (Annual electric bills are in addition to these figures.) Even with fuel assistance and the heating deduction, the tenants feel, as they have expressed to Authority personnel, that paying 30% of their income with utilities included is a more financially reliable and safer alternative for them. In addition, dependent deductions are higher for federal housing than state deductions, and fuel assistance is not available to the higher income tenants who reside in state public housing. Out of 332 Snug Harbor households examined, 40 would not be eligible. Thus, the higher income households have a greater incentive to migrate to federal public housing, if given that opportunity.

When we discussed the waiting list issue with the BHA to determine if the Single Waiting List would work for the QHA, we learned that the BHA's state family tenants do not pay their electric and heat in addition to their rent; their state unit rent is comparable to the federal rents. We also determined that heat is included in the rent for the tenants who live in the Lakeview state-funded family development in Weymouth; the tenants pay 30% of their income for rent and pay their electric only. We mention this because it seems that the QHA state family tenants are paying their heat and electric in addition to rent when tenants in other state family developments are not. This has caused special challenges for both the QHA and its tenants that other housing authorities do not have to face. It is my understanding that Mr. Mather had requested of DHCD that the QHA be allowed to change its rent structure to include utilities in the rents of its state family tenants and that DHCD representatives had told him that such a change would not be possible. We cannot determine if Mr. Mather ever formally submitted a request to DHCD to change the state family rent structure. We therefore request, at this time, a change in the tenant rent structure for Snug Harbor and West Acres Family Developments so that electric and heat are included in the tenant rent.

Transfer of Federal Reserves

I reiterate my opinion that reserves should not be used to fund operating expenses. That being said, Mr. Mather had suggested to DHCD that the QHA could transfer some of the Authority's Section 8 Program reserves to the 4001 project if DHCD is willing to match these funds. Pursuant to his recommendation, the Commissioners did vote to transfer funds from the Authority's Section 8 operating reserves to a "Local Program" to be used for housing authority purposes. Presently, it is realistic to expect that the QHA could transfer approximately $100,000 if DHCD is willing to undergo a matching arrangement. This offer, however, may be subject to change as a result of the recent Section 8 Program budget crisis, which is not yet resolved. In addition, these funds are an unlikely source of revenue in the future, as I am sure that you know that future Section 8 Program reserves, if there are any, may be restricted to Section 8 purposes only.

Rooftop Antennae

We do not view this as a solution to the issues; however, we will continue to seek additional revenues to support Authority operations. To bring DHCD up to date on this issue, a request for proposals to lease rooftop space for commercial cell towers on its high rise buildings was issued in January. We will continue to accept proposals once a month for a year. We have been approached by Nextel, which has revisited Tobin Towers and appears very interested, and we expect that they will be submitting a proposal in May. Other vendors have stated that they would more than likely submit proposals at a future date.

Early Retirements FY 2003 and FY 2004

The Authority's Board of Commissioners adopted the ERI incentives for FY 2003 and FY2004, on the recommendation of the Authority's former Executive Director. The FY 2003 ERI is predicted to result in annual budget savings of $316,568, as a result of not filling all of the positions vacated by the retirees.[3] The following persons took advantage of the FY 2003 ERI: the Labor Foreman; Modernization Director; Maintenance Superintendent; three laborers; one carpenter; a clerk typist; senior bookkeeper and painter. The Labor Foreman was replaced with an existing laborer. The Maintenance Superintendent was replaced with the floorlayer; the floorlayer position was not filled. The Modernization Director was replaced by the Modernization Force Account Foreman, which position was not filled. One laborer was not replaced and the painter, clerk typist and senior bookkeeper positions were not filled. With regard to the FY2004 ERI, the Commissioners again adopted the program upon the recommendation of the former Executive Director. Only two employees took advantage of the FY 2004 ERI, one of whom was the Authority's receptionist, which position had to be filled. The other employee accepting early retirement was the former Executive Director. The Executive Director did not inform the Board that he intended to take advantage of the program at the time of his recommendation that the ERI be adopted. We do not know yet whether the adoption of the 2004 early retirement will result in savings. It is anticipated that some savings will be realized from the Executive Director's retirement, as that position will likely be filled at a lower salary level than what the former Executive Director was earning, as a result of the DHCD budget guidelines on that salary.

Pension Assessment

As you know, the Authority's pension assessment skyrocketed as a result of the privatization of the Quincy Hospital. The issue was explained previously in a letter to you from the Authority's General Counsel dated August 23, 2002. (Copy of letter enclosed.) As you also know, an agreement was made to resolve the Authority's FY 2003 assessment by reducing it to an apportionment based upon a pre-hospital privatization percentage of payroll. Unfortunately, as we have recently explained to Marty Robb, the City of Quincy does not wish to follow that agreement in FY 2004 or thereafter. This was communicated to the Authority in January of this year, more than half-way through the

[3] The Authority has not yet received the pension assessment resulting from the FY 2003 ERI or the FY 2004 ERI. This is due to the dispute on the FY2004 pension assessment, which will be explained later in this letter.

fiscal year. To change the FY 2004 assessment at this late stage of the fiscal year would have a devastating effect upon the Authority. It would result in an increase of assessment of approximately $400,000, which amount would be due and payable by June 30, 2004. The FY 2005 assessment would also be in excess of $900,000. Before the hospital's privatization, the Authority's pension assessments were in the $500,000 range. I am enclosing a copy of a "Power Point" presentation which was given to our legislative delegation when we met with them on this issue. As you can see from the enclosed, the Authority's pension assessments are more than 200% of the costs of the Authority's employee pensions. This assessment is unreasonable. A reasonable and permanent resolution is essential to the future of the Authority. Its resources should be used for affordable housing purposes, not to fund City employee pensions. Perhaps there is something that DHCD could undertake to provide a resolution not just for this Authority, but for all housing authorities who participate in retirement systems that are not following the "actuarial" method of assessment. That method assesses costs based upon each employer's actual pension costs. If all housing authorities were assessed their pension costs, using the actuarial method, that would undoubtedly free up the funds which are currently being diverted from housing purposes to fund the costs of other employer's pensions. Perhaps a new retirement system could be created legislatively for the participation of housing authorities and the funding of their employee pensions.

Condition of Authority-Owned Non-Dwelling Facilities

There are also other issues related to the Authority's finances. They include whether funding will be provided to address the maintenance needs of the Day Care Center and the Manet Health Center located in Germantown. Both of these centers provide important services to Authority families. In the past, the Authority was better able to absorb the maintenance costs of these two facilities. The Authority can no longer afford to do so. The vendors both say that they cannot afford to fund these costs. We are at a point where a decision will have to be made whether the Authority can continue to provide these services without a dedicated funding source in addition to existing Authority funds, which are not even adequate to support appropriately its housing functions. We need DHCD's assistance in making a decision in these matters.

The same issue exists with regard to the Safford Street 689-1 facility. It is badly in need of repairs and upgrading. If the repairs are not funded, it is likely that facility will have to close.

In conclusion, the Authority respectfully requests that DHCD reconsider its "No Rating" notification. As explained above, Quincy Housing Authority operations have been subjected to unique circumstances that are not within the control of the Authority and that have substantially contributed to the depletion of its reserves and the high number of its vacancies in Snug Harbor. The Authority requests restoration of its prior acceptable rating, pending resolution of the mold issue. The Authority, as you can see, has attempted to eliminate the underlying causes of the mold. Without the release of adequate modernization funds to eliminate the causes, the Snug Harbor units have continued to have recurring mold, peeling paint on ceilings and walls and other maintenance problems. This has caused an unfair burden on the Authority's operating

Quincy Housing Authority

budget and maintenance department. If the Authority must constantly respond to leaky roofs and mold clean-up, other issues are naturally neglected. As you indicated in your letter to Mr. Mather, this situation did not occur overnight. The Authority has made mistakes in the last few years in its attempt to address the vacancy and reserves issue. It has attempted and is attempting to correct those mistakes, as indicated in this letter. We believe, however, that its mistakes have not created these problems. The Authority's low reserves and high vacancies are the result, we believe, of a chronic under-funding of family public housing and not directing the modernization funds that are available to the correction of serious and long-standing problems.

The Snug Harbor development is a substantial community and Commonwealth housing resource. Public housing serves the neediest of the needy. If we wish this resource to continue, care must be given to protect it. The Authority is ready to work with DHCD and undertake whatever is necessary to ensure the continuation of this resource.

Thank you for your assistance.

Very truly yours,

Jacquelyn S. Loud
Acting Executive Director

Attachments: 5

cc: Carole Collins, Bureau Director
Martin Robb, Asset Management Specialist
Christine DeVore, Program Management Coordinator
Wade Porrovecchio, Acting Director of Housing Management
Roberta Strongin, Senior Project Manager
Stan Kruszewski, Program Manager
Joseph Buckley, Unit Director
Quincy Housing Authority Board of Commissioners

04/16/04		VACANCIES FAMILY					
Address of Vacancy	**Assign To**	**Date of Vacancy**	**Unit Size**	**date of W.O.**	**date Main rec W.O.**	**down time**	**date returned**
							MOLD=GREEN
							?MOLD=PINK
186 Taffrail #3		**7/15/2003**	**3BR**	**7/15/2003**	**7/15/2003**	**0**	
20 Captains Wlk #3	?Steinberg	7/16/2003	3BR	7/16/2003	7/16/2003	0	
109 Taffrail #4	MOLD	7/8/2003	2BR	7/8/2003	7/8/2003	0	
357 Palmer #3	MOLD	7/22/2003	4BR	7/22/2003	7/22/2003	0	12/17/2003
178 Taffrail #3	MOLD	7/31/2003	3BR	7/31/2003	7/31/2003	0	
435 Palmer #2	?Fernandez	**8/15/2003**	**3BR**	**8/15/2003**	**8/15/2003**	**0**	
369 Palmer #3	MOLD	8/25/2003	3BR	8/25/2003	8/25/2003	0	
345 Palmer #1	MOLD	8/25/2003	2BR	8/25/2003	8/25/2003	0	
95 Taffrail #4	peeling paint	**9/10/2003**	**2BR**	**9/10/2003**	**9/10/2003**	**0**	
4 Figurehead #2	MOLD	9/15/2003	3BR	9/15/2003	9/15/2003	0	
189 Taffrail #4		**10/6/2003**	**2BR**	**10/6/2003**	**10/6/2003**	**0**	
115 Taffrail #4		**10/28/2003**	**2BR**	**10/28/2003**	**10/28/2003**	**0**	
109 Taffrail #1	?MOLD	11/6/2003	2BR	11/6/2003	11/6/2003	0	
6 Bicknell #3		11/13/2003	3BR	11/13/2003	11/13/2003	0	
32 Captains Walk #1	?MOLD	11/7/2003	2BR	11/10/2003	11/10/2003	3	
130 Taffrail #4	MOLD	11/13/2003	2BR	11/13/2003	11/13/2003	0	
120 Taffrail #4	MOLD	11/14/2003	2BR	11/14/2003	11/14/2003	0	2/15/2004
105 Taffrail #1	MOLD	11/14/2003	2BR	11/17/2003	11/17/2003	3	
193 Taffrail #2	MOLD	11/19/2003	3BR	11/19/2003	11/19/2003	0	
189 Taffrail #1		**11/21/2003**	**2BR**	**11/21/2003**	**11/21/2003**	**0**	
36 Taffrail #2	MOLD	12/3/2003	3BR	12/3/2003	12/3/2003	0	
219 Taffrail #4		**12/3/2003**	**2BR**	**12/3/2003**	**12/3/2003**	**0**	3/4/2004
32 Taffrail #1	MOLD	11/30/2003	2BR	12/5/2003	12/5/2003	5	
401 Palmer #3	Nguyen	**12/15/2003**	**4BR**	**12/15/2003**	**12/15/2003**	**0**	3/4/2004
436 Palmer #1		**12/23/2003**	**2BR**	**12/29/2003**	**12/29/2003**	**6**	3/4/2004
99 Taffrail #1	MOLD	12/30/2003	2BR	12/30/2003	12/30/2003	0	
95 Taffrail #2	MOLD	12/31/2003	4BR	1/7/2004	1/7/2004	7	
369 Palmer #1		**1/15/2004**	**2BR**	**fire**	**fire**	**0**	
75 Taffrail #1	MOLD	1/20/2004	2BR	1/20/2004	1/20/2004	0	
72 Taffrail #1		**1/26/2004**	**2BR**	**1/26/2004**	**1/26/2004**	**0**	
120 Taffrail #2	MOLD	1/27/2004	3BR	1/27/2004	1/27/2004	0	
8 Captians Walk #2	MOLD	1/28/2004	3BR	1/28/2004	1/28/2004	0	
224 Taffrail #4	?MOLD	2/10/2004	2BR	2/10/2004	2/10/2004	0	
89 Taffrail #4		**3/15/2004**	**2BR**	**3/15/2004**	**3/15/2004**		
14 Bicknell #4		**3/31/2004**	**2BR**	**3/31/2004**	**3/31/2004**		
75 Taffrail #2	MOLD	4/8/2004	3BR	4/8/2004	4/8/2004	1	
17 Binnacle #2		**4/5/2004**	**3BR**	**4/5/2004**	**4/5/2004**	**0**	
64 Captains Walk #1	MOLD	4/7/2004	2BR	4/7/2004	4/7/2004	0	
		RIVERVIEW					
40 Quarterdeck #4	?Lam	**12/1/2003**	**2BR**	**12/3/2003**	**12/3/2003**	**2**	
78 Quarterdeck #2		**2/2/2004**	**1WC**	**2/2/2004**	**2/2/2004**	**0**	
44 Quarterdeck #3		**2/2/2004**	**3BR**	**2/2/2004**	**2/2/2004**	**0**	
25 Quarterdeck #4		**2/3/2004**	**1BR**	**2/3/2004**	**2/3/2004**	**0**	
77 Doane #3	Santiago	**2/19/2004**	**3BR**	**2/19/2004**	**2/19/2004**	**0**	3/12/2004
77 Doane #1		**3/1/2004**	**2BR**	**3/3/2004**	**3/3/2004**	**2**	
		WESTACRES					
36 Sullivan #2		**10/31/2003**	**2BR**	**11/5/2003**	**11/5/2003**	**5**	2/10/2004
Address of Vacancy	**Assign To**	**Date of Vacancy**	**Unit Size**	**date of W.O.**	**date Main rec W.O.**	**down time**	**date returned**

Snug Harbor 200-1
CARS AWARDS
PROJECTS AUTHORIZED TO PROCEED

YEAR	CAR #	DESCRIPTION	AWARD	DHCD ACTION	EXPENDED	BALANCE
1994 bond bill						
1994	6	Remove/replace siding	$1,548,000	No Work Plan		$1,548,000
1994	7	Repair/Replace Roofs	$903,000	No Work Plan		$903,000
1994	34	kitchen	planning			$0
1994	35	Window Replacement	$1,600,000	No Work Plan		$1,600,000
1994	43	Repair Asphalt	$129,000	No Work Plan		$129,000
1998 bond bill						
1998	1	Exterior walls/venting/water penetration	$900,000	Partial	$785,000	$115,000
1998	2	Roofing	$1,000,000	Partial	$450,000	$550,000
1998	3	Exterior walls/venting/water penetration	$1,176,250	Partial	$375,000	$801,250
1998	4	Deteriorated Paving/Sidewalks	$812,500	Partial	$35,000	$777,500
1998	6	Electrical/Fire Safety	$455,000	work included in kitchen		$455,000
2002 bond bill						
2002	11	Site Work	$1,656,000	No Work Plan		$1,656,000
	FISH	kitchens	$5,874,000	contract $5,434,985	in progress	
				Total Unexpended		$8,534,750