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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
FALL RIVER HOUSING AUTHORITY
APRIL 1, 2006 TO DECEMBER 31, 2008**

**OFFICIAL AUDIT
REPORT
MARCH 29, 2010**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Fall River Housing Authority for the period April 1, 2006 to December 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2006-0652-3A).

Based upon our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 33-month period ended December 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

3

1. STATUS OF PRIOR AUDIT RESULTS

3

Our prior audit of the Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that (a) various instances of noncompliance with the State Sanitary Code existed at the Authority, (b) modernization requests had not been funded by the Department of Housing and Community Development (DHCD), (c) vacant units were not occupied in a timely manner, and (d) a discrepancy existed in the subsidy balances reported by the Authority and DHCD. Our follow-up review disclosed that although the Authority has taken action to remedy these issues, further improvements are needed, as discussed below:

a. Compliance with State Sanitary Code

3

DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspection of housing units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our prior audit noted 51 instances of noncompliance with the State Sanitary Code, including broken windowpanes, chipping and cracking paint, mildew, cockroach infestation, water damage on walls and ceilings, and deteriorating floors and cabinets. Our follow-up review determined that the Authority has taken corrective action to address the prior instances of noncompliance.

b. Modernization Initiatives

3

Our prior audit found that although the Authority had applied to DHCD for funding for a capital modernization project addressing four issues at one of its state-aided properties, the request was not funded by DHCD during the audit period. Our follow-up review determined that the Authority's request remains unfunded.

c. Vacant Units Not Reoccupied within DHCD Guidelines **4**

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Our prior audit found that during the period July 1, 2003 through June 30, 2005, the Authority's average turnaround time for reoccupying vacant units was 64 days. Our follow-up review revealed that the vacant unit turnaround time has increased from 64 to 81 days and that the Authority may have lost the opportunity to earn approximately \$263,545 in potential rental income by not filling vacant units in a timely manner.

d. Operating Subsidies Received **4**

Our prior audit noted that there were timing variances between the Authority's subsidy records and DHCD's records for subsidies paid. Our follow-up review determined that the Authority is monitoring the quarterly operating subsidy payments received from DHCD and is communicating with DHCD to resolve any issues arising from the processing of these quarterly payments.

2. INVENTORY CONTROLS NEED IMPROVEMENT **5**

We found that the Authority lacked proper controls over inventory records and procedures. Our review of inventory control revealed that although the Authority had an inventory listing as required by DHCD, the list was not accurate. We tested 25 items from the inventory list and found that nine items were not tagged and six items could not be located. We also noted that the Authority's policies and procedures manual relative to inventory control was dated July 1, 1989 and did not reflect current requirements.

3. TENANT HOUSING CAN BE MORE EFFECTIVE **6**

We reviewed 14 of 800 tenant files for compliance with 760 Code of Massachusetts Regulations (CMR), which provides occupancy standards and tenant participation for state-aided housing, and found that two of the 14 tenants selected were residing in units that are considered over-housed. The Authority should periodically review its waiting list and advertise in the local newspaper and other media sources to attract larger families from Fall River or other cities and towns to occupy these units.

INTRODUCTION

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Fall River Housing Authority for the period April 1, 2006 to December 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.

- Site inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0652-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 33-month period ended December 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. STATUS OF PRIOR AUDIT RESULTS

Our prior audit of the Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that (a) various instances of noncompliance with the State Sanitary Code existed at the Authority, (b) modernization requests had not been funded by the Department of Housing and Community Development (DHCD), (c) vacant units were not occupied in a timely manner, and (d) a discrepancy existed in the subsidy balances reported by the Authority and DHCD. Our follow-up review disclosed that although the Authority has taken action to remedy these issues, further improvements are needed, as discussed below:

a. Compliance with State Sanitary Code

DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspections of dwelling units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our prior audit of the Authority found 51 instances of noncompliance with Chapter II of the State Sanitary Code identified during our inspections of eight of the 150 state-aided housing units managed by the Authority. Instances of noncompliance included broken windowpanes, chipping and cracking paint, mildew, cockroach infestation, water damage on walls and ceilings, and deteriorating floors and cabinets. We recommended that the Authority apply for funding from DHCD to address these issues. Our follow-up review determined that the Authority had taken corrective action to address the prior instances of noncompliance. The Executive Director stated that although DHCD did not consider the remaining issues to be emergencies, and therefore did not provide funding, the Authority used its own funds to address the remaining issues.

b. Modernization Initiatives

Our prior audit found that the Authority had applied to DHCD for funding for a capital modernization project for its state-aided 200 Family development. However, DHCD did not approve this request. Our follow-up review determined that the Authority is using its own funds to address modernization improvements, such as roof, electrical, painting, and plumbing issues, in order to prevent further deterioration at the 200 Family development.

c. Vacant Units Not Reoccupied within DHCD Guidelines

Our prior audit found that during the period July 1, 2003 through June 30, 2005, the Authority's average turnaround time for reoccupying vacant units was 64 days. DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant.

Our follow-up review found that the Authority may have lost the opportunity to earn approximately \$263,545 in potential rental income by not filling vacant units in a timely manner. We found that there were a total of 428 units within the Elderly and Family programs that exceeded DHCD's guidelines by a total of 34,722 days, or an average of 81 days, as follows:

<u>State Housing Program</u>	<u>Excess of 21 Days</u>	<u>Potential Lost Income</u>
Family Housing Program - 276 Units	21,014	\$143,004
Elderly Housing Program - 152 Units	<u>13,708</u>	<u>\$120,541</u>
Total for Both Programs	<u>34,722</u>	<u>\$263,545</u>

As a result of these delays, the Authority has lost income and may have temporarily deprived needy citizens of subsidized housing.

Recommendation

We recommend that the Authority take action to decrease the turnover time of vacant units. The Authority should take appropriate action to comply with DHCD's Property Maintenance Guide and reoccupy vacated units within 21 working days.

d. Operating Subsidies Received

Our prior audit noted that there were timing variances between the Authority's subsidy records and DHCD records for subsidies paid. Our follow-up review determined that the Authority is monitoring the quarterly operating subsidy payments received from DHCD and is communicating with DHCD to resolve any issues arising from the processing of these quarterly payments.

2. INVENTORY CONTROLS NEED IMPROVEMENT

We found that the Authority lacked proper controls over inventory records and procedures, and that its policies and procedures manual relative to inventory control was dated July 1, 1989, and

did not reflect current requirements. DHCD's Accounting Manual for State-Aided Housing Programs, Section 15, states that the following inventory procedures be followed:

- Establish Furniture and Equipment Record Cards or use an automated system.
- Tag all lawnmowers and snow blowers, as well as equipment over \$1,000, with a prenumbered inventory asset tag.
- Conduct a physical inventory once a year.

Our review of inventory controls revealed that although the Authority had an inventory listing, as required by DHCD, the list was not accurate. We tested 25 items from the inventory list and found that nine items were not tagged and six items could not be located. The six items on the list we could not locate included four snow blowers and two lawnmowers. We were told by maintenance that the lawnmowers were disposed of; however, the disposal cards were not forwarded to the Purchasing Agent until after we notified the Authority that they were unaccounted for. The four snow blowers were later located at different site locations other than those listed on the inventory list. Of the four snow blowers located, three were not tagged. The Maintenance Superintendent indicated that snow blowers are moved around various sites during winter months to expedite snow removal and are not always returned to their original sites. In addition to the above-mentioned equipment, an office safe, listed as being at the Doolan Apartments, was not located.

A follow-up interview with the Purchasing Agent regarding the missing items disclosed that no physical inspection of inventory has been performed since the early 1990's.

Recommendation

We recommend that the Authority complete an annual physical inventory and reconcile it with its inventory list in order to accurately account for the assets and reflect the Authority's inventory value. Also, it should update its policies and procedures to include current requirements.

3. TENANT HOUSING CAN BE MORE EFFECTIVE

We reviewed 14 of 800 tenant files for compliance with 760 Code of Massachusetts Regulations (CMR), *Occupancy Standards and Tenant Participation for State-Aided Housing*, and found that two of

the 14 tenants selected were residing in over-housed units, a tenant household which the local housing authority (LHA) has determined, based upon the composition of the household, to consist of more bedrooms than is appropriate for the household size pursuant to 760 CMR 5.03, unless such occupancy is authorized by law. According to the Authority the tenants were placed in these units because they were the only units available.

Recommendation

We recommend that the Authority periodically review its waiting list and advertise in the local newspaper and other media sources to attract larger families from Fall River and other surrounding cities and towns to occupy the units properly based on the members of each qualifying family.

Auditee's Response

The Authority indicated in its response that it will address all of the issues raised in the report.