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**INDEPENDENT STATE AUDITOR'S REPORT
ON THE PHYSICAL CONDITION
OF STATE-AIDED PUBLIC HOUSING UNITS
AND RESOURCES ALLOCATED FOR THE
OPERATION AND UPKEEP OF THE
FALL RIVER HOUSING AUTHORITY
JULY 1, 2003 TO JUNE 30, 2005**

**OFFICIAL AUDIT
REPORT
JANUARY 25, 2008**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted a statewide comprehensive audit of the physical conditions and the resources available to provide for the operation and upkeep of the state-aided public housing authorities of the Commonwealth. To accomplish our audit, we performed work at the Department of Housing and Community Development (DHCD) and obtained data from surveys and site visits to a selected, representative cross-section of 66 Local Housing Authorities (LHAs) throughout the state. The Fall River Housing Authority was one of the LHAs selected to be reviewed for the period July 1, 2003 to June 30, 2005. A complete list of the LHAs visited and surveyed is provided in our statewide report No. 2005-5119-3A. Our on-site visits were conducted to follow up on survey data we obtained in order to: observe and evaluate the physical condition of the state-regulated LHAs, review policies and procedures over unit site inspections, determine whether LHA-managed properties were maintained in accordance with public health and safety standards, and review the state modernization funds awarded to determine whether such funds have been received and expended for their intended purpose. In addition, we reviewed the adequacy of the level of funding provided to each LHA for annual operating costs to maintain the exterior and interior of the buildings and housing units, as well as capital renovation infrastructure costs to maximize the public housing stock across the state, and determined whether land already owned by the LHAs could be utilized to build additional affordable housing units. We also determined the number of vacant units, vacancy turnaround time, and whether any units have been taken off line and are no longer available for occupancy by qualifying families or individuals in need of housing. In its response, the Authority indicated that it agreed with the issues disclosed in our report.

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1. RESULTS OF INSPECTIONS – NONCOMPLIANCE WITH STATE SANITARY CODE

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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. On January 17 and January 19, 2006, we inspected 24 of the 882 state-aided housing units managed by the Authority and noted 51 instances of noncompliance with Chapter II of the State Sanitary Code, including broken window panes, chipping and cracking paint, mildew, cockroach infestation, water damage on walls and ceilings, and deteriorating floors and cabinets.

2. MODERNIZATION INITIATIVES NOT FUNDED

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In response to our questionnaires, the Authority indicated that it requested funding from DHCD in 2003 for capital modernization projects for its 667-1 and 705 developments. However, these requests were not funded by DHCD. Deferring or denying the Authority's modernization needs may result in further deteriorating conditions that could render the units and buildings uninhabitable. Moreover, if the Authority does not receive

funding to correct these conditions (which have been reported to DHCD), additional emergency situations may occur, and the Authority's ability to provide safe, decent, and sanitary housing for its elderly and family tenants could be seriously compromised.

3. VACANT UNITS NOT REOCCUPIED WITHIN DHCD GUIDELINES **10**

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. However, our review found that during the audit period, the Authority's average turnaround time for vacant units was 64 days. Moreover, we found that there were over 100 applicants on the Authority's waiting list.

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The Contract for Financial Assistance between the Authority and DHCD requires DHCD to subsidize the Authority to meet its expenses. A review of the Authority's operating subsidy accounts indicated that it was owed \$1,419,250, whereas a list of subsidies provided to us by DHCD indicated that it owed the Authority \$870. Untimely payments may result in authorities not meeting their monthly obligations in a current manner or may result in authorities having to borrow funds from other programs to pay current liabilities. (See Supplementary Information No. 2, page 12).

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Inappropriate Use of Federal Funds Led to a \$3.5 Million Deficit in HUD Programs Administered by the Fall River Housing Authority

The Authority inappropriately used federal funds to pay expenditures of state-aided programs. Specifically, it used funds from the Housing Choice Voucher, Public Housing Operating Fund, Public Housing Capital Fund, and Public Housing Drug Elimination programs to fund its state-subsidized housing programs, which were facing a \$1.4 million shortfall in subsidies owed from DHCD that was needed for the continued operation of the state programs. The Authority did not follow the internal controls it established to ensure compliance with the financial provisions of its annual contributions contracts for its federal programs. As a result, the Authority did not have \$3.5 million available for its federal programs on January 1, 2005.

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INTRODUCTION

Background

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted a statewide comprehensive audit of the physical conditions and the resources available to provide for the operation and upkeep of the state-aided public housing authorities of the Commonwealth. To accomplish our audit, we performed work at the Department of Housing and Community Development (DHCD) and obtained data from surveys and site visits to a selected, representative cross-section of 66 Local Housing Authorities (LHAs) throughout the state. The Fall River Housing Authority was one of the LHAs selected to be reviewed for the period July 1, 2003 to June 30, 2005. A complete list of the LHAs visited and surveyed is provided in our statewide report No. 2005-5119-3A.

Our on-site visits were conducted to follow up on survey data we obtained in order to: observe and evaluate the physical condition of the state-regulated LHAs, review policies and procedures over unit site inspections, determine whether LHA-managed properties were maintained in accordance with public health and safety standards, and review the state modernization funds awarded to determine whether such funds have been received and expended for their intended purpose. In addition, we reviewed the adequacy of the level of funding provided to each LHA for annual operating costs to maintain the exterior and interior of the buildings and housing units, as well as the capital renovation infrastructure costs to maximize the public housing stock across the state, and determined whether land already owned by the LHAs could be utilized to build additional affordable housing units. We also determined the number of vacant units, vacancy turnaround time, and whether any units have been taken off line and are no longer available for occupancy by qualifying families or individuals in need of housing.

Audit Scope, Objectives, and Methodology

The scope of our audit included an evaluation of management controls over dwelling unit inspections, modernization funds, and maintenance plans. Our review of management controls included those of both the LHAs and DHCD. Our audit scope included an evaluation of the physical condition of the properties managed; the effect, if any, that a lack of reserves, operating and modernization funds, and maintenance and repair plans has on the physical condition of the LHAs'

state-aided housing units/projects; and the resulting effect on the LHAs' waiting lists, operating subsidies, and vacant units.

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

Our primary objective was to determine whether housing units were maintained in proper condition and in accordance with public health and safety standards (e.g., the State Sanitary Code, state and local building codes, fire codes, Board of Health regulations) and whether adequate controls were in place and in effect over site-inspection procedures and records. Our objective was to determine whether the inspections conducted were complete, accurate, up-to-date, and in compliance with applicable laws, rules, and regulations. Further, we sought to determine whether management and DHCD were conducting follow-up actions based on the results of site inspections.

Second, we sought to determine whether the LHAs were owed prior-year operating subsidies from DHCD, and whether the untimely receipt of operating subsidies from DHCD may have resulted in housing units not being maintained in proper condition.

Third, in instances where the physical interior/exterior of LHA-managed properties were found to be in a state of disrepair or deteriorating condition, we sought to determine whether an insufficient allocation of operating or modernization funds from DHCD contributed to the present conditions noted and the resulting effect, if any, on the LHAs' waiting lists and vacant unit reoccupancy.

To conduct our audit, we first reviewed DHCD's policies and procedures to modernize state-aided LHAs, DHCD subsidy formulas, DHCD inspection standards and guidelines, and LHA responsibilities regarding vacant units.

Secondly, we sent questionnaires to each LHA in the Commonwealth requesting information on the:

- *Physical condition of its managed units/projects*
- *State program units in management*
- *Off-line units*
- *Waiting lists of applicants*

- *Listing of modernization projects that have been formally requested from DHCD within the last five years, for which funding was denied*
- *The amount of funds disbursed, if any, to house tenants in hotels/motels*
- *Availability of land to build affordable units*
- *Written plans in place to maintain, repair, and upgrade its existing units*
- *Frequency of conducting inspections of its units/projects*
- *Balances, if any, of subsidies owed to the LHA by DHCD*
- *Condition Assessment Reports (CARs) submitted to DHCD*
- *LHA concerns, if any, pertaining to DHCD's current modernization process*

The information provided by the LHAs was reviewed and evaluated to assist in the selection of housing authorities to be visited as part of our statewide review.

Third, we reviewed the report entitled “Protecting the Commonwealth’s Investment – Securing the Future of State-Aided Public Housing.” The report, funded through the Harvard Housing Innovations Program by the Office of Government, Community and Public Affairs, in partnership with the Citizens Housing and Planning Association, assessed the Commonwealth’s portfolio of public housing, documented the state inventory capital needs, proposed strategies to aid in its preservation, and made recommendations regarding the level of funding and the administrative and statutory changes necessary to preserve state public housing.

Fourth, we attended the Joint Legislative Committee on Housing’s public hearings on March 7, 2005 and February 27, 2006 on the “State of State Public Housing;” interviewed officials from the LHAs, the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials, and DHCD; and reviewed various local media coverage regarding the condition of certain local public housing stock.

To determine whether state-aided programs were maintained in proper condition and safety standards, we (a) observed the physical condition of housing units/projects by conducting inspections of selected units/projects to ensure that the units and buildings met the necessary minimum standards set forth in the State Sanitary Code, (b) obtained and reviewed the LHAs’ policies and procedures relative to unit site inspections, and (c) made inquiries with the local boards

of health to determine whether any citations had been issued, and if so, the LHA's plans to address the cited deficiencies.

To determine whether the modernization funds received by the LHAs were being expended for the intended purposes and in compliance with laws, rules, and regulations, we obtained and reviewed the Quarterly Consolidated Capital Improvement Cost Reports, Contracts for Financial Assistance, and budget and construction contracts. In addition, we conducted inspections of the modernization work performed at each LHA to determine compliance with its work plan.

To determine whether LHAs were receiving operating subsidies in a timely manner, we analyzed each LHA subsidy account for operating subsidies earned and received and the period of time the payments covered. In addition, we made inquiries with the LHA's Executive Director/fee accountant, as necessary. We compared the subsidy balance due the LHAs per DHCD records to the subsidy data recorded by the LHAs.

To assess controls over waiting lists, we determined the number of applicants on the waiting list for each state program and reviewed the waiting list for compliance with DHCD regulations.

To assess whether each LHA was adhering to DHCD procedures for preparing and filling vacant units in a timely manner, we performed selected tests to determine whether the LHAs had uninhabitable units, the length of time the units were in this state of disrepair, and the actions taken by the LHAs to renovate the units.

AUDIT RESULTS

1. RESULTS OF INSPECTIONS – NONCOMPLIANCE WITH STATE SANITARY CODE

The Department of Housing and Community Development's (DHCD) 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. For the period July 1, 2003 to June 30, 2005, we reviewed inspection reports for 24 of the 882 state-aided dwelling units managed by the Fall River Housing Authority.

In addition, on January 17 and 19, 2006, we conducted inspections of units located at the Authority's 1863 Pleasant Street (Elderly Housing 667-1), 34 Mitchell Drive (Elderly Housing 667-2), 57 Bates Street (Elderly Housing 667-4), and Maple Gardens (Family Housing 200-2).

The 667-1 Francis J. Barresi Heights development is a high-rise building with 149 units. In one unit we inspected, which was vacant, we found that the smoke alarm was disconnected and dangling from the ceiling by one wire. This was the only instance of noncompliance found within the building. On the grounds of the development, notably the parking lot, we observed cracks and frost heaves, which have a potential of causing a trip hazard to tenants, employees, and visitors to the development.

The 667-2 development, Edward F. Doolan Apartments, consists of four apartment buildings comprising 152 units plus one community building, which includes a community hall and maintenance and administrative offices. Our inspection noted several noncompliance issues, including two apartments that had stress cracks in load-bearing walls. We determined that these were load-bearing walls in which the plaster had separated at the location where the walls were joined, and further confirmed this with the head of maintenance for this development. Also, in the common areas of several of the buildings, the floor tiles were starting to curl at the joints. These tiles may create a trip hazard for the tenants, employees, and visitors to the development. In addition, two kitchen ceilings had water discoloration and mildew spots that may be attributable to poor ventilation within the crawl spaces above the ceiling tiles. Some residents noted that there were drafts from the windows, and the Authority's superintendent stated that the windows were original and should probably be replaced due to failed seals.

The 667-4 development, Bates and Tower, is also a high-rise building with 61 units. The roof of the Bates and Tower complex has consistently been a problem since it was constructed in 1989. In three of the six units we inspected, we found that the ceilings were cracked and peeling, and the walls were cracked and had mildew and water damage. DHCD recently sent an architect down to Bates and Tower to inspect this condition. In one of the apartments we inspected, the bay window, which appears to have become dislodged from its frame due to its weight, is causing a stress crack on the wall above. This stress crack is also causing water to leak into the apartment when it rains. In addition, all units inspected on the east side of the building had water problems from the air conditioning, as the permanent air conditioning inserts were not installed with the correct pitch. Instead of condensation from the air conditioning unit leaking to the outside of the building as it should, the condensation drains to the inside, and has caused mold and mildew damage to the interior walls below the air conditioning units and the rugs. Several windows in the common area are missing screens. Also, many kitchen cabinets are starting to break due to humidity and water damage within the inspected units. This problem is occurring because the cabinets are constructed of particleboard covered with a thin wood lamination. Water or humidity penetrating the particleboard causes it to swell and crack the wood lamination.

The 200-2 development, Maple Gardens, consists of 50 buildings comprising 196 units. This complex was constructed in 1949 and occupied in 1950. Three of the six units we inspected had broken windows, two of which were boarded up. The two units with boarded windows are currently vacant, and the apartments are undergoing repairs. The Authority's superintendent indicated that the windows would not be replaced until the units are ready to rent, as local teenagers within the complex often break the windows on vacant apartments so they can enter and use the apartment as a hangout. Five of the six units we inspected at Maple Gardens had cockroach infestation in the kitchens, bathrooms, and living rooms. We observed both live and dead cockroaches within the units, as well as cracked walls and broken and missing floor tiles.

Our inspection noted 51 instances of noncompliance with Chapter II of the State Sanitary Code, including broken windows, cockroach infestation, deteriorating floors and cabinets, peeling paint, mold, mildew and water damage to ceilings, missing tiles and ripples in the wall-to-wall carpeting, problems on the floor coverings, and deteriorated and crumbling concrete walls. (Appendix I of our report summarizes the specific State Sanitary Code violations noted, and Appendix II includes photographs documenting the conditions found.)

In response to our survey and our statewide “Comprehensive Report on the Physical Condition of and Resources Allocated for the Operation and Upkeep of State-Aided Public Housing in the Commonwealth of Massachusetts” audit (No. 2005-5119-3A), Fall River Housing Authority officials informed us that for fiscal years 2003, 2004, and 2005, it had incurred operating deficits totaling over \$4.8 million; that it was owed subsidies of over \$1.4 million from DHCD; that it had to borrow over \$3 million from its federal programs to maintain its state programs; and that it had taken 17 units off line. These issues, which are discussed in this report, point to a serious lack of adequate state funding to the Authority. (See Supplementary Information No. 2, page 12).

The photographs presented in Appendix II illustrate the pressing need to address the conditions noted, since postponing the necessary improvements would require greater costs at a future date, and may result in the properties not conforming to minimum standards for safe, decent, and sanitary housing.

Recommendation

The Authority should apply for funding from DHCD to address the issues noted during our inspections of the interior (dwelling units) and exterior (buildings) of the Authority, as well as other issues that need to be addressed. Moreover, DHCD should obtain and provide sufficient funds to the Authority in a timely manner so that it may provide safe, decent, and sanitary housing for its tenants.

2. MODERNIZATION INITIATIVES NOT FUNDED

In response to our questionnaires, the Authority informed us that there is a need for modernizing its managed properties. Specifically, the Authority provided the following information regarding capital modernization projects that were formally requested from DHCD during fiscal year 2003, yet remained unfunded as of June 30, 2005:

- a. Francis J. Barresi Heights – 667-1 Development (initial occupancy 1970; elderly/disabled high-rise building with 149 apartments):

Boiler Replacement

- *Two (2) existing boilers are original equipment, which are operating beyond normal life expectancy. Boilers are inefficient; require more than typical maintenance; and a section of one (1) boiler had to be replaced in 2002.*

Site Improvements

- *Existing parking area is in poor condition with many cracks and depressions affecting the asphalt surface; the number of parking spaces (34) is inadequate for this 149-apartment facility, and we would propose to add spaces on the east side of the building.*

Kitchen Modernization

- *Existing kitchens have not been modernized and are in poor condition; kitchen and bathroom electrical outlets do not have ground fault interruption protection.*

Site Security/Handicap Access

- *Site lighting is inadequate, resulting in unsafe conditions, particularly in the parking area. Building entrance should be improved to provide handicapped-accessible door operation.*

- b. Edward F. Doolan Apartments – 667-2 Development (initial occupancy 1968; elderly two-story development with 152 apartments):

Apartment Window Replacement

- *Existing sliding wood frame windows are in poor condition, allow air/water infiltration, and are difficult for residents to open and close. In addition, many hallway windows have failed window seals.*

Heating System Replacement

- *Existing building boilers are original equipment, which are operating beyond life expectancy. Boilers are inefficient and require more than typical maintenance; result in frequent heat-related calls from elderly residents.*

Kitchen Modernization

- *Existing kitchens have never been modernized. There is no ground fault interruption protection on electrical outlets in the kitchen.*

Site Improvements

- *Existing asphalt sidewalks are severely deteriorated with many cracks and depressions. The latter allow water to collect and pose an ice hazard in winter. There are many site drainage issues.*

- c. Bates/Tower – 667-4 Development (initial occupancy 1991; elderly mid-rise development with 67 apartments, including two congregate living units):

Site Improvements

- *Existing parking area is inadequate for the number of residents. Some residents are required to park on and cross a busy street.*

- d. Maple Gardens –200-2 Development (initial occupancy 1950; family development with 196 apartments in 50 buildings):

Comprehensive Modernization

- *Building exteriors require new windows, siding, entrance doors, and bulkheads. Apartments require kitchen/bathroom renovations, electrical and plumbing upgrades, painting, VAT replacement, and there are no handicap-accessible units. All buildings require de-leading.*
- e. Corky Row - 705-1 Development (Initial Occupancy 1982; family development in three scattered site buildings; nine apartments):

Comprehensive Modernization

- *Building exteriors require new windows, siding, and entrance doors. Apartments require kitchen/bathroom renovations, electrical and plumbing upgrades, and painting.*

The above conditions are mainly the result of aging, use, and wear and tear. The Authority indicated that requests to fund the above-identified modernization projects were denied by DHCD in fiscal year 2003.

Deferring or denying the Authority's modernization needs may result in further deteriorating conditions that could render the units and buildings uninhabitable. Moreover, if the Authority does not receive funding to correct these conditions (which have been reported to DHCD), additional emergency situations may occur, and the Authority's ability to provide safe, decent, and sanitary housing for its elderly and family tenants could be seriously compromised. Lastly, deferring the modernization needs into future years will cost the Commonwealth's taxpayers additional money due to inflation, higher wages, and other related costs.

In June 2000, Harvard University awarded a grant to a partnership of the Boston and Cambridge Housing Authorities to undertake a study of state-aided family and elderly/disabled housing. The purpose of the study was to document the state inventory of capital needs and to make recommendations regarding the level of funding and the administrative and statutory changes necessary to give local Massachusetts housing authorities the tools to preserve and improve this important resource. The report, "Protecting the Commonwealth's Investment - Securing the Future of State-Aided Public Housing," dated April 4, 2001, stated, "Preservation of existing housing is the fiscally prudent course of action at a time when Massachusetts faces an increased demand for affordable housing. While preservation will require additional funding, loss and replacement of the units would be much more expensive in both fiscal and human terms."

Recommendation

The Authority should continue to appeal to DHCD for the necessary modernization funds to remedy these issues in a timely manner.

3. VACANT UNITS NOT REOCCUPIED WITHIN DHCD GUIDELINES

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. However, our review found that during the audit period, the Authority's average turnaround time for reoccupying vacant units was 64 days. Moreover, we found that there were 42 vacant units in the Authority's Family and Elderly developments and over 100 applicants on the Authority's waiting list. To compound the problem, the Authority informed us that it had taken 17 units off line, further exacerbating the shortage of affordable housing units.

By not ensuring that vacant units are reoccupied within DHCD's guidelines, the Authority may have lost the opportunity to earn potential rental income net of maintenance and repair costs and may have lost the opportunity, at least temporarily, to provide needy citizens with subsidized housing.

Recommendation

The Authority should do all it can within its limited resources to ensure that vacant units are refurbished and reoccupied within DHCD's timeframe. DHCD should obtain and provide the Authority with the funds necessary to fulfill their respective statutory mandates.

4. STATUS OF OPERATING SUBSIDIES EARNED, RECEIVED, AND OUTSTANDING

The Contract for Financial Assistance between the Authority and DHCD requires DHCD to subsidize the Authority to meet its expenses. During our audit, we requested and received from DHCD a statement of operating subsidy balances due and outstanding for each LHA of the Commonwealth as of June 30, 2005. During our field visits to the LHAs, we reviewed the

subsidy records to determine whether the amounts were in agreement with balances provided by DHCD. The Authority's subsidy records indicated that \$1,419,250 was due the Authority, whereas DHCD's records indicated that \$870 was due the Authority as of June 30, 2005. The size of the discrepancy between the balances reported by the Authority and DHCD is of serious concern.

A review of the Authority's fiscal year 2006 records noted that \$1,200,000 was received from DHCD in August of 2005, \$400,000 in September of 2005, and \$400,000 in October of 2005. This amount includes \$175,000 of fiscal year 2006 operating subsidy. Untimely payments may result in authorities not meeting their monthly obligations in a current manner, and may result in authorities borrowing funds from other programs to pay current liabilities as they become due. (See Supplementary Information No. 2, page 12).

Recommendation

The Authority should communicate with DHCD to determine whether the correct amount of operating subsidy due the Authority is recorded in its financial statements. Second, DHCD should work with each LHA to resolve any variances by obtaining quarterly financial statements from each LHA so that it can monitor and reconcile operating subsidies due to and due from each LHA. Third, in order for the Authority to receive the subsidies it is entitled to on a timely and accurate basis, it is necessary that all variances are reconciled and that DHCD provides the requisite adequate contribution.

Auditee's Response

In response to our report, the Authority indicated that it agreed with the issues disclosed in our report.

SUPPLEMENTARY INFORMATION

1. *Fall River Housing Authority-Managed State Properties*

The Authority's state-aided housing developments, the number of units, and the year each development was built, is as follows:

<u>Development</u>	<u>Number of Units</u>	<u>Year Built</u>
200-1	131	1949
667-1	149	1968
667-2	152	1967
667-3	54	1981
667-4	67	1989
705-1	9	1981
705-2	24	1991
200-2	196	1949
200-3	<u>100</u>	1949
Total	<u>882</u>	

2. *Inappropriate Use of Federal Funds Led to a \$3.5 Million Deficit in HUD Programs Administered by the Fall River Housing Authority*

The Authority inappropriately used federal funds to pay expenditures of state-aided programs. Specifically, it used funds from the Housing Choice Voucher, Public Housing Operating Fund, Public Housing Capital Fund, and Public Housing Drug Elimination programs to fund its state-subsidized housing programs, which were facing a \$1.4 million shortfall in subsidies owed from DHCD that was needed for the continued operation of the state programs. The Authority did not follow the internal controls it established to ensure compliance with the financial provisions of its annual contributions contracts for its federal programs. As a result, the Authority did not have \$3.5 million available for its federal programs on January 1, 2005.

The Authority's consolidated annual contributions contracts with the Department of Housing and Urban Development (HUD) require the Authority to maintain records that identify the source and application of funds. These records are required to allow HUD to determine whether the Authority expended funds appropriately. Therefore, the

Authority uses a series of fund accounts to track the source and use of funds for the Housing Choice Voucher program (Section 8 program), the Public Housing Operating Fund program (low-rent program), the Public Housing Capital Fund program, and the Public Housing Drug Elimination program. The funds received for the federal programs flow through the Authority's federal account into its Revolving Fund, from which program expenditures are paid. We verified that the Authority recorded paid program expenditures in the appropriate fund accounts for the programs. This verification showed that between March 2001 and January 2005, the Authority transferred \$6,340,789 to its Revolving Fund to pay for expenses of its state-subsidized housing programs.

The Authority attributed its inappropriate use of federal funds to a failure by DHCD to provide sufficient and timely funding for the Authority's state-subsidized housing programs. At our request, the Authority contacted DHCD to determine the amount owed. DHCD concluded that it owed the Authority \$1,412,122 as of December 31, 2004. This situation occurred because DHCD failed to provide subsidies in a timely manner and the Authority's management did not aggressively pursue collections from the state in order to avoid borrowing from the federal programs.

The Authority indicated that it used the federal funds for state-subsidized housing programs because it did not want to discontinue housing for families assisted by the state programs. However, the Authority also had needy families waiting for federally assisted housing, and these families typically waited for approximately one year. In addition, the Authority's use of the \$3.5 million for state programs has decreased voucher utilization in its federal Housing Choice Voucher program, thereby reducing future awards. Under the appropriations laws for 2005, HUD is required to fund vouchers at housing authorities based upon actual utilization and housing assistance payments. In its response, the Authority has pointed out that its conservative approach to voucher utilization was a necessary adjustment to changes in the voucher program and concerns over program costs.

The Office of the Inspector General for HUD provided the following recommendations to the Authority:

We recommend that the director of the Office of Public Housing require the Authority to:

1(A) Identify the federal program(s), and the month and year of each transfer and expense that nets to \$3,530,080.

1(B) Submit monthly accounting reports with supporting documentation to HUD for monitoring.

We also recommend that the director of the Office of Public Housing

1(C) Confirm repayment from nonfederal sources the \$3,530,080 plus interest to the appropriate federal program(s) or United States Treasury for the funds repaid for closed programs.

1(D) Confirm the implementation of controls over tracking and reporting of federal funds to ensure that the Authority is using federal funds for federal programs only.

1(E) Take appropriate administrative actions against Authority Officials for the improper use of federal funds.

On August 12, 2005 the Executive Director of the Authority provided the following responses to the Regional Inspector General for Audit:

Comment 1: The Fall River Housing Authority agrees with this portion of the audit finding. The Authority disputes the claim that it "failed to follow internal controls it established to ensure compliance with the financial provisions of its annual contributions contracts for its federal programs". The Authority acknowledges that in an effort to sustain its state-aided public housing program that it consciously made short-term loans from the federal program to the state program. The Authority, which is in the business of housing economically disadvantaged families, made every attempt to provide the maximum number of homes available to this population. These loans were always considered to be a receivable back to the federal program and in fact a series of payments from the state program to the federal program has been demonstrated.

As a result, the Authority did not have \$3.5 million available for its federal programs on January 1, 2005, and housed fewer families under its federal housing programs.

Comment 2: The Fall River Housing Authority disputes this assertion. There have been no facts introduced that suggest that any of our federal housing programs housed fewer families as a result of the loans to the state program. The FRHA clearly exercised caution in leasing units under the Section 8 Voucher Program as a result of overall funding considerations for the program (HUD mandated program funding changes), not as a result of short-term loans to the state program. The Authority's position is that it utilized its operating reserves in making short-term loans. It is the Authority's position that the public housing program and the Section 8 Voucher Program did not house fewer families because of its support of the state program.

The State advised that it owed the Authority \$1,412,122.00 on December 31, 2004. This situation occurred because the Authority's management did not aggressively pursue collections from the state.

Comment 3: The Fall River Housing Authority disputes this assertion. The Authority was operating under the approved Department of Housing & Community Development (DHCD) guidelines for its state-aided properties. The Authority was not exceeding its approved state expense levels and was in constant communication with DHCD (via e-mail and phone conversations) in an effort to secure prompt payment of state subsidy. The Authority was competing for scarce state resources and used all of its ability to recover in a timely fashion those dollars loaned from its federal program.

The Authority indicated that it used the federal funds for state-subsidized housing programs because it did not want to discontinue housing for families assisted by the state programs. However, the Authority also had needy families waiting for federally assisted housing, and these families typically had waited for approximately one year.

Comment 4: There has been no connection that has been established, nor do we believe that one exists, between the time a family would be on our federal waiting list and the loans that occurred between our state and federal programs. None of the work required to house families in our federal program was interrupted during the period of time when the federal and state loans occurred. Families that were required to wait one year during this period would have been required to wait one year had the loans not taken place.

In addition, the Authority's inappropriate use of these funds caused the federal programs to house fewer families, which lowered its voucher utilization and will result in less federal funding being available in the future.

Comment 5: As previously indicated, the Authority's conservative approach to its voucher utilization was a necessary adjustment to HUD program changes and concern over program costs related to the Section 8 Voucher Program. Voucher utilization was not impacted by the federal and state loans. The Authority does not dispute that as of 12-31-2004 the outstanding balance of the unpaid federal loans to the state program was \$3,530,080.00. At this juncture, I am pleased to inform you that the Department of Housing & Community Development forwarded to the FRHA \$1,200,000.00 on 8-08-2005. These funds have been transferred along with the balance of funds required to repay the federal loans as of 6-30-2005 in their entirety. The FRHA is currently reconciling its accounts... Once complete, the balance due to the federal program will be transferred. It is anticipated that this transfer will be accomplished within the next two weeks. The FRHA will move forward. . . with the prohibition of loans between the state and federal programs.

Please be advised that the Authority acknowledges that the practice of providing short-term loans from the federal program to the state program is prohibited. The FRHA is currently in negotiations with DHCD to ensure a timely and adequate subsidy payment is received to fund its state-aided operations.

APPENDIX I

State Sanitary Code Noncompliance Noted

200-2 Development

Maple Gardens

<u>Location</u>	<u>Noncompliance</u>	<u>Regulation</u>
13 A Maple Gardens	Bathroom - mildew and water damage on ceiling	105 CMR 410.750
	Kitchen - cockroach infestation	105 CMR 410.550
17 B Maple Gardens	Living/dining room - floor defects are a trip hazard	105 CMR 410.504
	Bathroom - ceiling paint is chipping and cracking	105 CMR 410.500
	Kitchen - cockroach infestation	105 CMR 410.550
	Common area entrance - damaged and unsecured door	105 CMR 410.500 105 CMR 410.480
25 A Maple Gardens	Kitchen - dryer with no ventilation	105 CMR 410.351
	Living/dining room – ceiling paint chipping and cracking	105 CMR 410.500
	Bedroom - ceiling paint is chipping and cracking	105 CMR 410.500
19 C Maple Gardens	Kitchen - dryer with no ventilation	105 CMR 410.351
	Kitchen - cockroach infestation	105 CMR 410.550
	Bathroom - walls and ceilings show signs of mold and mildew	105 CMR 410.750
	Bathroom - one electrical outlet	105 CMR 410.252
25 C Maple Gardens	Bedroom - broken window pane	105 CMR 410.500
	Bathroom - one electrical outlet	105 CMR 410.252
	Unit - cockroach infestation	105 CMR 410.550

	Common area entrance – damaged and unsecured door	105 CMR 410.500 105 CMR 410.480
46 C Maple Gardens	Kitchen - cockroach infestation	105 CMR 410.550
	Kitchen - wall has mildew and water damage	105 CMR 410.750
	Bathroom - one electrical outlet	105 CMR 410.252
	Bathroom - mildew and water damage on ceiling	105 CMR 410.750
	Unit - missing tiles causing trip hazard	105 CMR 410.504
	Common area entrance – damaged and unsecured door	105 CMR 410.500 105 CMR 410.480

667-4 Development
Bates/Tower

<u>Location</u>	<u>Noncompliance</u>	<u>Regulation</u>
57 Bates Street, #502	Kitchen - wall and ceiling have water damage from leak in roof	105 CMR 410.500
	Living room - wall has water damage from leak near bay window	105 CMR 410.500
57 Bates Street, #302	Kitchen - wall and ceiling have water damage from leak in roof	105 CMR 410.500
	Kitchen - cabinets beginning to peel due to humidity	105 CMR 410.100
	Living room - wall and ceiling have water damage from leak in roof	105 CMR 410.500
57 Bates Street, #514	Living room - wall has hole and water damage from leak in roof	105 CMR 410.500
	Bedroom - wall has water damage from leak in roof	105 CMR 410.500

	Bedroom - ceiling has water damage from leak in roof	105 CMR 410.500
57 Bates Street, #104	Bedroom - ceiling has water damage	105 CMR 410.500
	Bathroom - ceiling has water damage	105 CMR 410.500
	Kitchen - cabinets beginning to peel due to humidity	105 CMR 410.100
57 Bates Street, #508	Kitchen - ceiling has water damage due to leak in roof	105 CMR 410.500
	Kitchen - cabinets beginning to peel due to humidity	105 CMR 410.100
Tower	East side – the permanent air conditioning inserts in the units were not installed at the correct pitch. As a result, condensation is leaking into the units causing mold and mildew on walls below insert and on rugs.	105 CMR 410.500

667-2 Development
Doolan Apartments

<u>Location</u>	<u>Noncompliance</u>	<u>Regulation</u>
35 H Doolan Apts.	Living/dining room - wall has stress cracks along load bearing wall	105 CMR 410.500
	Living/dining room - exposed telephone wiring	105 CMR 410.256
	Common area - tiles contain asbestos	105 CMR 410.353
	Common area - floor tiles curling	105 CMR 410.504
57D Doolan Apts.	Kitchen – ceiling shows water stains	105 CMR 410.500

	Bathroom - one electrical outlet	105 CMR 410.252
	Common area - floor tiles curling	105 CMR 410.504
	Common area - tiles contain asbestos	105 CMR 410.353
91F Doolan Apts.	Living room - wall has stress crack along load- bearing wall	105 CMR 410.500
	Bathroom - one electrical outlet	105 CMR 410.252
	Living room - window screen is ripped	105 CMR 410.551

APPENDIX II

Photographs of Conditions Found

667-4 Elderly Development Bates and Tower, 57 Bates Street, #514
Living Room – Wall Has Hole and Water Damage from Leak in Roof



667-4 Elderly Development Bates and Tower, 57 Bates Street, #514
Living Room – Wall Has Hole and Water Damage from Leak in Roof



667-4 Elderly Development Bates and Tower, 57 Bates Street, #302
Living Room – Wall and Ceiling Have Water Damage from Leak in Roof



667-4 Elderly Development Bates and Tower, 57 Bates Street, #502
Living Room – Wall Has Water Damage from Leak Near Bay Window



667-4 Elderly Development Bates and Tower, 57 Bates Street, #502
Living Room – Wall Has Water Damage from Leak Near Bay Window



667-4 Elderly Development Bates and Tower, 57 Bates Street, #502
Kitchen – Wall and Ceiling Have Water Damage from Leak in Roof

