



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-5131-3A

**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES AFFECTING THE
EFFICIENCY AND COST EFFECTIVENESS OF
MASSACHUSETTS LOCAL HOUSING AUTHORITIES**

**OFFICIAL AUDIT
REPORT
JUNE 11, 2008**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

The Department of Housing and Community Development's (DHCD) mission is to provide leadership, professional assistance, and financial resources that promote safe, decent, and affordable housing opportunities; the economic vitality of communities; and sound municipal management. DHCD's Division of Public Housing and Rental Assistance is responsible for the regulatory and administrative oversight of all state-aided public housing programs which address the needs of low-income families, the elderly, and persons with disabilities. According to DHCD's web site, there are currently approximately 90,000 units of state- and federally-assisted public housing units in Massachusetts that are administered by 253 local housing authorities (LHAs). Eligibility for these subsidized programs is based upon criteria such as the applicant's age, net income, veteran's status, certain disability criteria, and the results of Criminal Offender Record Information (CORI) investigations.

The Office of the State Auditor (OSA) has conducted a survey of certain LHA processes regarding (1) rent determinations, (2) compliance with tenant lease and occupancy requirements, and (3) enforcement and collections. The purpose of our review was to identify the concerns of the Commonwealth's LHAs regarding these issues, and to recommend appropriate corrective action. Our review was initiated after concerns were expressed by several LHAs and the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials (Mass NAHRO) regarding common observations identified in our audits of individual local housing authorities that have also been disclosed in recent reports in the local news media. To accomplish our objectives, we surveyed 13 LHAs that operate a total of 14,992 public housing units to evaluate the problems experienced in their administration of the Commonwealth's public housing programs, and to recommend policies and procedures to increase the efficiency and cost effectiveness of such programs.

REVIEW RESULTS

2

1. EFFICIENCY AND EFFECTIVENESS OF RENT DETERMINATION PROCESS CAN BE IMPROVED

2

Our review disclosed that the annual rent re-determination process, which verifies tenants' resources and generates additional revenue for the LHAs, is extremely time consuming, cumbersome and costly. Steps can and should be taken to reduce the time and effort involved, generate cost savings, and improve the overall quality of the rent re-determination process.

2. PROBLEMS ASSOCIATED WITH UNAUTHORIZED OCCUPANTS NEED TO BE ADDRESSED

3

During the course of our review, LHA officials expressed serious concerns related to unauthorized occupants living at LHAs. The effect of such occupancy is wide ranging; impacting time, effort and costs of operation, lost revenue, property damage, and threats to tenant safety and security. Although steps have been taken to address this problem, Massachusetts local housing authorities need further assistance and resources.

APPENDIX	7
Local Housing Authorities Surveyed	7

INTRODUCTION

The Department of Housing and Community Development's (DHCD) mission is to provide leadership, professional assistance, and financial resources that promote safe, decent, and affordable housing opportunities; the economic vitality of communities; and sound municipal management. DHCD's Division of Public Housing and Rental Assistance is responsible for the regulatory and administrative oversight of all state-aided public housing programs which address the needs of low-income families, the elderly, and persons with disabilities. According to DHCD's web site, there are currently approximately 90,000 units of state- and federally-assisted public housing units in Massachusetts that are administered by 253 local housing authorities (LHAs). Eligibility for these subsidized programs is based upon criteria such as the applicant's age, net income, veteran's status, certain disability criteria, and the results of Criminal Offender Record Information (CORI) investigations.

The Office of the State Auditor (OSA) has conducted a survey of certain LHA processes regarding (1) rent determinations, (2) compliance with tenant lease and occupancy requirements, and (3) enforcement and collections. The purpose of our review was to identify the concerns of the Commonwealth's LHAs regarding these issues, and to recommend appropriate corrective action. Our review was initiated after concerns were expressed by several LHAs and the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials (Mass NAHRO) regarding common observations identified in our audits of individual local housing authorities that have also been disclosed in recent reports in the local news media. To accomplish our objectives, we surveyed 13 LHAs that operate a total of 14,992 public housing units to evaluate the problems experienced in their administration of the Commonwealth's public housing programs, and to recommend policies and procedures to increase the efficiency and cost effectiveness of such programs.

REVIEW RESULTS

1. EFFICIENCY AND EFFECTIVENESS OF RENT DETERMINATION PROCESS CAN BE IMPROVED

In accordance with 760 Code of Massachusetts Regulations (CMR) 6.04(4) (a), LHAs are required to re-determine each tenant's monthly rent annually on the first day of a specified month. The re-determination date should be the same each year, unless the LHA gives the tenant reasonable advance notice of a different date, no more than a year later than the most recent notice of rent. Our survey found that some authorities performed all of their reviews on a set date each year, while others performed their annual reviews on the anniversary of each tenant's occupancy date. Conducting such reviews on a rolling basis requires staff to perform rent re-determinations on an ongoing basis year-round, as opposed to peak efforts once or twice a year. In general, the LHAs reported that although the rent re-determination process results in increased monthly rental income, even after factoring in all of the direct and indirect costs associated with conducting the annual reviews, they found that the process was time-consuming.

In response to these concerns regarding the amount of time and effort involved in annual re-determinations in relation to the benefit received, taking into consideration all estimated direct and indirect costs (including fringe benefits, pensions, insurance, administrative and overhead costs, etc.), the new administration at the Department of Housing and Community Development (DHCD) has instituted a biennial rent recertification process for elderly tenants. The purpose of this policy is to improve the efficiency of housing authority operations by authorizing LHAs to conduct tenant rent verifications and recertification every two years. This biennial process will be implemented by way of an authorization and waiver from DHCD. For the second year of tenancy and every alternate year thereafter in which a formal rent recertification is not conducted, each tenant's rent shall be increased by the U.S. Social Security Administration's percentage increase for Social Security benefits for that year. The tenant retains the right to obtain a recalculation of the rent if there is believed to be a factual error, or if the increase is in excess of 30% of income.

None of the LHAs we reviewed utilized the new biennial re-determination method, because the annual reviews for these LHAs had already been completed before the new policy was promulgated by DHCD.

The LHAs also expressed concerns over obtaining consistent and reliable third party verification of income from the various sources claimed. During the course of our review it was noted that several LHAs that operate both state- and federally-assisted programs have access to verification systems for their federal programs that they are not authorized to use for their state programs. LHAs therefore have access to certain income information for their federal tenants that they cannot obtain for their state tenants, even though both programs are operated by the same LHA.

For example, to verify wages for a state tenant, the LHA will access DHCD's "Wage Match Program". However, for a federal tenant at the same LHA, the LHA will access the U.S. Department of Housing and Urban Development's (DHUD) "Enterprise Income Verification" (EIV) system to verify wages, social security, and unemployment.

It should be noted that neither program provides information regarding child support, transitional assistance, worker's compensation, veteran's benefits, lottery or gambling prizes, or interest income. To verify information that is not available via either system above, the LHA must obtain tenant authorization for each type of income from various state or federal agencies, and such information is not always up to date. In addition, the cost of such verification efforts multiplies based on the number of income-earning tenants sharing the unit.

Our survey also disclosed that some LHAs use additional outside employment and wage verification services, although it was reported that there may be fees associated with these services, and they are tenant (employee) dependent. This is extremely time consuming, may not be all-inclusive, and because it is dependent upon the responsiveness of the tenant, the information may not be current by as much as six months.

As a result of these shortcomings, the current system is unnecessarily inefficient, uneconomical, and burdensome to LHAs.

2. PROBLEMS ASSOCIATED WITH UNAUTHORIZED OCCUPANTS NEED TO BE ADDRESSED

Our review found that several LHAs had serious concerns regarding unauthorized and unidentified occupants in the LHAs and their impact on the LHA and the surrounding neighborhood and community. The LHA concerns included lease violations for not reporting these occupants; unreported income for the unreported occupants, which results in lost revenue

to the LHA; and overcrowding, property damage, abandoned and unregistered vehicles, and various other illegal or criminal activity that may affect residents' health and safety and cost the LHA additional maintenance resources. Policing and investigating these situations is an increasingly time consuming, burdensome and costly endeavor not only to the LHA, but also to local law enforcement authorities, and ultimately the taxpayer.

An article in the Worcester Telegram and Gazette on February 14, 2007 highlighted the problems associated with unauthorized tenants and the related costs to local housing authorities, in particular the Worcester Housing Authority (WHA). The WHA is currently participating in a pilot project initiative known as the "Revenue Intercept Program", which has been expanded to allow LHA participation. The Payment Intercept Program was created in 1998 by the Department of Revenue's Child Support Enforcement Division to intercept payments intended for parents who concurrently owed outstanding child support debts. This program has since been expanded to authorize the recovery of public assistance benefits payable to the Department of Transitional Assistance and MassHealth and delinquent taxes owed to the Commonwealth. Although housing authorities have subsequently been added to the list of agencies authorized to intercept state payments, at the present time policies and procedures have not yet been promulgated for LHAs to utilize the system. LHAs are also currently precluded from accessing the services of the Bureau of Special Investigations (BSI) within the Department of the State Auditor to investigate potential fraud involving lost rental income from unreported or false income information reported by authorized tenants. BSI authorities are statutorily limited to investigate fraud involving only the public assistance programs administered by the Departments of Transitional Assistance, Social Services, and Medical Assistance, as the statutes do not currently cover housing-related public assistance programs.

With respect to the problems and costs associated with individuals residing illegally in public housing units, it was noted that the Worcester and Springfield Housing Authorities have instituted a pilot Unauthorized Occupant Program to address these issues. Through enhanced lease enforcement procedures, aggressive follow-up of resident complaints, and the collaborative sharing of data between local housing authorities and various government agencies such as the Registry of Motor Vehicles, the Department of Revenue, the U.S. Social Security Administration, the U.S. Postal Service, and local voter registration databases, the Unauthorized

Occupant Program has reportedly been successful in detecting unauthorized tenants and reducing crime, fraud, and maintenance costs at the local level.

Conclusion

As a result of the issues noted in this report regarding income verification and unauthorized occupants in state public housing units, LHAs are losing potential rental income, incurring additional administrative and maintenance costs, deserving applicants are being deprived of affordable housing, local law enforcement is burdened, and the health, safety and security of honest, law abiding tenants is compromised.

RECOMMENDATIONS

To establish a more streamlined, cost effective, and efficient system for re-determining rent and tracking unauthorized occupants, we recommend that:

- A standing task force be established consisting of representatives from DHCD, the State Comptroller's Office, the Department of Revenue (DOR), Mass NAHRO and selected LHAs to develop a comprehensive system that gathers and makes all necessary information available to LHAs in a "one stop shopping" location. (i.e. an improved all access EIV type or similar system.) As this may require legislation, the group should reach out to both state and federal legislators for assistance. State and federal agencies such as the DOR and the IRS are authorized to share data for mutually benefiting purposes, and similar arrangements should be authorized for public housing. The end result would also be a system that would be a model for the nation, and would be applicable for tenants in either state or federal housing units.
- DHCD eliminate the requirement for LHAs to apply for authorization for a biennial rent recertification waiver. Each individual LHA is in the best position to evaluate and judge its tenants' histories, and is best suited to evaluate the benefits of such waivers. It should be sufficient for LHAs to simply notify DHCD if they have chosen to exercise the biennial option.
- The task force renew its efforts to make the benefits of the Revenue Intercept Program available to LHAs, so that LHAs can recover delinquent or vacated rents from state income tax refunds or other payments from the state such as lottery winnings.
- Legislation which was previously filed to authorize BSI to investigate referrals from LHAs regarding undeclared tenant income as related to fraudulent housing assistance should be enacted.
- Based on the initial success of the Unauthorized Occupant Program reported by the Worcester and Springfield Housing Authorities, training on enhanced lease enforcement procedures and the strategic use of on-line and community resources should be made

available to LHAs on a statewide basis through the collaborative efforts of DHCD, Mass NAHRO and individual LHAs.

Implementation of the above recommendations should improve the overall efficiency and cost effectiveness of public housing, save taxpayers' money, and ensure that only qualified tenants receive public housing assistance.

AUDITEES' RESPONSE

The responses received from the individual LHAs and Mass NAHRO, their representative organization concurred with our results and recommendations. It was agreed that the new biennial rent redetermination process should be simplified, that the income verification process should be streamlined through the use of a comprehensive database system, that the Revenue Intercept Program should be implemented expeditiously for timely utilization by the LHAs, and that the Bureau of Special Investigation's assistance would help significantly in capturing lost income from unauthorized occupants.

To address instances in which self-employed tenants claim that they received little or no income, one LHA suggested that such tenants be charged a minimum rent based on the statutory minimum wage, after considering a reasonable deduction for sick, vacation and other leave.

It was suggested by another LHA that tenants that failed to provide complete and accurate income information should be charged a reasonable fee to recoup the costs of multiple rent recalculations and amendments.

AUDITOR'S REPLY

We appreciate the cooperation and suggestions received from the thirteen LHAs that participated in our review.

APPENDIX**Local Housing Authorities Surveyed**

<u>Authority</u>	<u>State Units</u>	<u>Federal Units</u>	<u>Total</u>
Barnstable	283	563	846
Brockton	920	2,129	3,049
Chelsea	645	815	1,460
Falmouth	153	482	635
Holbrook	91	82	173
Kingston	56	0	56
Pembroke	130	132	262
Plymouth	242	468	710
Randolph	248	0	248
Taunton	472	1,060	1,532
Watertown	516	206	722
Worcester	1,129	3,872	5,001
Yarmouth	<u>49</u>	<u>249</u>	<u>298</u>
	<u>4,934</u>	<u>10,058</u>	<u>14,992</u>