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INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
LENOX HOUSING AUTHORITY
JULY 1, 2007 TO JUNE 30, 2009

OFFICIAL AUDIT
REPORT
FEBRUARY 5, 2010

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INTRODUCTION

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The Lenox Housing Authority was established in 1964 pursuant to Chapter 121B of the Massachusetts General Laws as a state-aided housing project composed of 102 elderly (Chapter 667), eight family (Chapter 705), and 12 special needs (Chapter 689) housing units located in Lenox. In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Authority for the period July 1, 2007 to June 30, 2009. 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 issues noted in our prior audit report (No. 2006-0692-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 24 months ended June 30, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED

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Our prior audit of the Authority (No. 2006-0692-3A), which covered the period July 1, 2003 to June 30, 2005, noted that the Authority (a) needed to modernize its managed properties and (b) did not comply with Chapter II of the State Sanitary Code. Our follow-up review determined the Authority resolved these prior audit issues, as follows.

a. Modernization Initiatives Funded

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Our prior audit noted that the Authority needed to modernize its managed properties, including replacing windows and roofs, repairing sidewalks and stairs, and installing attic insulation. At that time, we recommended that the Authority continue to appeal to the Department of Housing and Community Development (DHCD) for the modernization funds that it needed to complete these projects. Our follow-up review noted the Authority was awarded \$995,027 in modernization grants from January 1, 2006 to July 31, 2009. Moreover, the Authority completed eight major modernization projects with these funds, which resolved our prior audit issue.

b. Compliance with State Sanitary Code

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Our prior audit noted 23 instances of noncompliance with Chapter II of the State Sanitary Code, including damaged roofs, water-stained ceilings, chipped walls, missing handrails, damaged bathrooms, and deteriorating driveways and sidewalks. Our follow-up review determined that the Authority repaired these deficiencies with the modernization grants that it received during the audit period.

**2. PRIOR AUDIT RESULT UNRESOLVED - VACANT UNITS NOT REOCCUPIED WITHIN
DHCD'S GUIDELINES**

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Our prior audit disclosed that the Authority's average turnaround time for reoccupying vacant units was 25 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 noted an average turnaround time of 37 days, resulting in 662 excess vacancy days over DHCD's guidelines. As a result, the Authority may have lost the opportunity to earn an estimated \$6,796 in potential rental income. In its response, the Authority indicated that it works very hard to ensure that vacant units are ready for occupancy and rented within 21 business days, but noted that reasonable extenuating circumstances sometimes arise and prevent it from renting vacated units in a timely manner.

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 Lenox Housing Authority for the period July 1, 2007 to June 30, 2009. 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.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- 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.
- Modernization awards to verify that contracts were awarded properly and funds were received and disbursed in accordance with the contracts and DHCD policies and to determine the existence of any excess funds.

- Cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- 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. 2006-0692-3A).

Based on our review, we have concluded that, except for the issues discussed in the Audit Results section of this report, during the 24-month period ended June 30, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

Our prior audit of the Lenox Housing Authority (No. 2006-0692-3A), which covered the period July 1, 2003 to June 30, 2005, noted that the Authority (a) needed to modernize its managed properties and (b) did not comply with Chapter II of the State Sanitary Code. Our follow-up review determined the Authority resolved these prior audit issues, as follows.

a. Modernization Initiatives Funded

In our prior audit, the Authority provided the following information regarding funding for capital modernization projects that had been formally requested from the Department of Housing and Community Development (DHCD) in a Condition Assessment Report (CAR) for fiscal year 2002:

<u>CAR No.</u>	<u>Condition</u>	<u>Development</u>	<u>Status</u>
1	Building Envelope – Windows	667-2	Not Funded
2	Building Envelope – Roofing	667-2	Not Funded
3	Deteriorated Site Conditions – Sidewalk Pavement	667-1	Not Funded

However, these requests had remained unfunded. Moreover, the Authority informed us of additional capital improvements that needed to be addressed, as follows:

<u>Description</u>	<u>Development</u>	<u>Approximate Cost</u>
Finish roof/attic insulation	667-2	\$500,000
Flooring in apartments as needed	667-2	Varies
Point/repair all deteriorated bricks	667-2	Unable to determine
Remove rugs in entry/common area, refinish wood floors	667-2	Unable to determine
Replace carpets in three halls (2 nd , 3 rd , & 4 th floors)	667-2	\$15,000
Two mixing valves – regulate hot water	667-1	\$4,000 plus labor
Sidewalks/stairs replaced	667-1	\$50,000
Finish hall floor areas	667-1	\$5,000
Replace 26 outside door knobs	667-1	\$2,600
Start updating kitchen cabinets/counters	667-1	\$3,600 per unit
Heat tape on roof (40 front, 32 back)	667-1	\$20,000
Lead paint abatement	705	Unable to determine
Wall covering on halls (front and back)	705	\$3,000

Our follow-up review noted that the Authority was awarded \$995,027 in modernization grants from January 1, 2006 to July 31, 2009 and that it has completed eight major modernization projects with these funds, thereby addressing the issues disclosed in our prior report.

<u>CFA No.</u>	<u>Date</u>	<u>Amount</u>	<u>Development</u>	<u>Purpose</u>
1005	1/1/2006	\$279,344	667-2	Roof repair
1006	08/16/07	99,740	667-1	Lead paint abatement
1007	01/15/08	42,131	689-1A	Bathroom repair
1009	07/07/09	485,120	667-1	Sidewalk, stairs, handrail repairs, parking lot resurfacing
1011	07/30/09	46,372	705-1	Soft costs for roof repair
1012	10/14/08	18,000	667-2	Replace brick walkways
1013	07/30/09	18,070	667-2, 705-1	Repair low-flush toilets
1014	05/13/09	<u>6,250</u>	667-2	Renovate sagging floor in laundry room
Total		<u>\$995,027</u>		

b. 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 noted 23 instances of noncompliance with Chapter II of the State Sanitary Code, including damaged roofs, water-stained ceilings, chipped walls, missing handrails, damaged bathrooms, and deteriorating driveways and sidewalks.

Our follow-up review noted that the Authority corrected all the State Sanitary Code deficiencies noted in our prior report. As noted earlier, the Authority expended modernization funds to repair roofs, patch wall cracks, and fix damaged bathrooms. We commend the Authority for its diligence in obtaining the necessary funding to resolve this matter in a timely manner.

Auditee's Response

The Authority's Executive Director responded, in part:

Thank you for recognizing our successful efforts and diligence in obtaining . . . funding to address our [prior audit] needs for our many buildings and site deficiencies. . . . At this time, the 667-1 [development] deteriorated walks/stairs/parking area lighting site project has been substantially completed. Please note that all of the items which have been addressed are related to health/safety/reasonable accommodations. It is our belief that

these projects were made possible due to your Report on the Physical Condition of our Authority at that time.

2. PRIOR AUDIT RESULT UNRESOLVED - VACANT UNITS NOT REOCCUPIED WITHIN DHCD'S GUIDELINES

Our prior audit disclosed that during the 24-month audit period July 1, 2003 to June 30, 2005, the Authority's average turnaround time for reoccupying vacant units was 25 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 revealed that the Authority's average turnaround time was 37 days, resulting in 662 excess vacancy days over the DHCD standard. As a result, the Authority may have lost the opportunity to earn an estimated \$6,796 in potential rental income. Our analysis noted that approximately 25% of this amount was caused by a tenant who vacated without notice and who left extensive damage to the unit. The Authority pursued legal action against this former tenant in the Berkshire County Housing Court and secured a repayment agreement with which the former tenant is current as of January 2010.

Recommendation

The Authority should ensure that vacant units are refurbished and reoccupied within DHCD guidelines to ensure that potential rental income is maximized and needy citizens are provided with subsidized housing in a timely manner.

Auditee's Response

The Authority's Executive Director responded, in part:

The Authority works very hard to ensure that vacant units are ready for occupancy and rented within 21 business days. The top three prospective tenants are contacted immediately after a written notice to vacate is received. All necessary current information is obtained, and the CORI and references are requested in order to complete the final screening. Once that information is returned, a unit offer is sent out. The applicant has 7 days to accept the offer for housing. If that person waits the full 7 days and then refuses the unit, the process must start over again. In most instances there are often extenuating circumstances whereby an applicant requires more than 21 days before assuming occupancy, and a 30 day notice is always required by their current landlord. We require a 30 day written notice to vacate so it only is reasonable that we respect this rule from other landlords. We try to compromise by splitting a month if that person can afford to pay their full rent to current landlord and pay a half month to us. Also if any major repairs or flooring must be done before units can be reoccupied, that extends the turnover time because we are at the mercy of contractors' schedules.

Maybe it is time for DHCD to change the guideline to a more reasonable time frame to take into consideration any/all reasonable extenuating circumstances. We are acutely aware of the need to collect as much revenue as possible, but at the same time are dealing with depleted applicant lists. I would also like to point out that when we have to resort to eviction proceedings, navigating the court system is time consuming, frustrating, and costly for our authority with the negotiated results less than desirable.

Auditor's Reply

We recognize that filling a vacant unit is a deliberate process and we acknowledge that the Authority adequately complies with state regulations in this regard. In addition, we, along with the Authority, recognize that the 21-day standard may be difficult in practice to achieve. Accordingly, we credit the Authority for its diligence, but recommend that it continue to strive toward developing its waiting list, improving its collection efforts, and filling vacant units in a timely manner.