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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
LITTLETON HOUSING AUTHORITY
NOVEMBER 1, 2006 TO SEPTEMBER 30, 2009**

**OFFICIAL AUDIT
REPORT
AUGUST 12, 2010**

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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 Littleton Housing Authority for the period November 1, 2006 to September 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. 2007-0833-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 35-month period ended September 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 RESULT RESOLVED - COMPLIANCE WITH DHCD REGULATIONS ON ANNUAL UNIT INSPECTIONS

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Our prior audit of the Authority, which covered the period April 1, 2004 to October 31, 2006, noted that 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 the minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our audit revealed that the Authority did not comply with DHCD regulations in conducting annual unit inspections. Our follow-up review determined that the Authority is now conducting annual inspections of all units in conjunction with the annual fire alarm inspections.

2. PRIOR AUDIT RESULT PARTIALLY RESOLVED - COMPLIANCE WITH DHCD GUIDELINES FOR FILLING VACANT UNITS

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Our prior audit noted that the Authority may have lost the opportunity to earn approximately \$30,474 in potential rental income because vacant units were not reoccupied within the timeframe established by DHCD's Property Maintenance Guide, which requires that housing authorities reoccupy vacant units within 21 working days. Our follow-up review revealed that the Authority has made progress in meeting the DHCD guidelines. We found that while the Authority may have lost the opportunity to earn an additional \$20,041, \$11,450 of which resulted from one unit that required extensive renovation. The Executive Director stated that the Authority is making progress addressing this issue, and DHCD has instructed it to request approval to have units requiring extensive repairs taken off line, which it is in the process of doing.

3. IMPROVEMENTS NEEDED IN TENANTS' ANNUAL RENT DETERMINATIONS 4

DHCD regulations require that rent determinations be performed for each tenant in a state-aided housing program and defines the items of income and expense to be used in such rent determinations. During our audit, we reviewed 23 of 55 tenant folders from the Elderly and Family Housing Programs and found three tenants whose rent was calculated incorrectly. Additionally, we reviewed 16 tenants from the Massachusetts Rental Voucher Program (MRVP) and found eight tenants who did not have their rents redetermined annually. The Executive Director stated that additional training was given to newly hired staff to resolve the issue and that annual rent redeterminations for MRVP tenants will be on a scheduled basis rather than anniversary dates of the expiring lease.

4. MANAGEMENT PLAN NEEDS UPDATING 6

Our review of the Authority's Management Plan revealed that although the plan had some of the necessary components (e.g., personnel and grievance policies, DHCD regulations regarding tenant selection and rent determinations), there was no indication that it had been adequately updated since 1994. The Executive Director stated that the Authority will begin to update the plan this year.

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 Littleton Housing Authority for the period November 1, 2006 to September 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 verify that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Procedures for making payments to employees for payroll, travel, and fringe benefits to verify compliance with established rules and regulations.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and that rental charges by landlords were consistent with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.

- 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.
- 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. 2007-0833-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 35-month period ended September 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 RESULT RESOLVED – COMPLIANCE WITH DHCD REGULATIONS ON ANNUAL UNIT INSPECTIONS

Our prior audit of the Littleton Housing Authority, which covered the period April 1, 2004 to October 31, 2006, noted that 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 the minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our audit revealed that the Authority did not comply with DHCD regulations in conducting annual unit inspections.

Our follow-up review determined that the Authority is now conducting annual inspections of all units in conjunction with the annual fire alarm inspections.

2. PRIOR AUDIT RESULT PARTIALLY RESOLVED – COMPLIANCE WITH DHCD GUIDELINES FOR FILLING VACANT UNITS

Our prior audit noted that the Authority may have lost the opportunity to earn approximately \$30,474 in potential rental income because vacant units were not reoccupied within the timeframe established by DHCD's Property Maintenance Guide, which requires that housing authorities reoccupy vacant units within 21 working days. During that audit, the Executive Director noted problems with the heating system and units that required extensive rehabilitation. Our review also revealed that the Authority was not submitting quarterly reports on occupancy/vacancy to DHCD as required. By not submitting the quarterly reports, DHCD is unable to monitor excessive vacancies at the Authority.

Our follow-up review disclosed that the Authority may have lost the opportunity to earn an additional \$20,041. However, \$11,450 of the \$20,041 is the result of one unit that required extensive renovation and, when the unit was fully renovated, it was offered to a prospective tenant who was involved in litigation concerning her living situation. The Authority decided to hold the three-bedroom unit until the litigation was resolved, which delayed filling the unit for a total of more than 937 days. In addition, the Authority had two units that required renovations and replacement of the heating systems. Currently, the Authority is in the process of converting

the heating systems in all of its units, which has caused the Authority to take five units off-line. We also noted that the Authority is now filing computerized vacancy reports.

Recommendation

The Authority should continue in its efforts to comply with DHCD's regulations on filling vacant units within 21 working days.

Auditee's Response

The Littleton Housing Authority is making progress in addressing the extended vacancy issue. The DHCD has instructed the Authority to request approval to have units taken off line when there are extensive repairs required, and we are in the process of doing so.

3. IMPROVEMENTS NEEDED IN TENANTS' ANNUAL RENT DETERMINATIONS

DHCD regulations require that rent determinations be performed for each tenant in a state-aided housing program and defines the items of income and expense to be used in such rent determinations. During our audit, we reviewed 23 of 55 tenant folders from the Elderly and Family Housing Programs and found three tenants whose rent was calculated incorrectly. Additionally, we reviewed 16 tenants from the Massachusetts Rental Voucher Program and found eight tenants who did not have their rents redetermined annually.

Chapter 667 Elderly Housing Program:

We found that the rent determination for a recently housed tenant in the Elderly Housing Program did not include an exclusion for the tenant's gross income because the tenant was working. 760 Code of Massachusetts Regulations (CMR) 6.05 (3) (p) allows for an income exclusion for "wages and/or salary earned by a tenant age 62 or older ... not to exceed the total amount which would have been earned by a person working 20 hours per week at the minimum wage specified in M.G.L. c. 151, (1)." The Authority failed to consider the wage exclusion in the tenant's initial rent determination, thereby creating a \$208 per month overcharge. For the period March 12, 2009 to September 30, 2009, the tenant was overcharged by \$1,167.

Chapter 705 Family Housing Program:

We reviewed nine tenant files for the Family Housing Program and found two tenants whose rents were incorrectly calculated. One tenant did not receive the proper income deductions, creating an overcharge to this tenant for the period October 1, 2008 to November 30, 2009

totaling \$252. The tenant should have been allowed deductions under 760 CMR 6.05 (4) (c), which allows \$300 for each adult household member, and (4) (d), which allows for a deduction for heat in the amount prescribed by DHCD's schedule of heat deduction (\$500 for a two bedroom unit). This error was brought to the attention of the Executive Director, who reviewed the tenant's rent calculation and credited the tenant's account \$252. Additionally, another tenant incorrectly received a deduction in gross household income for tuition payments, which created a rental undercharge for the period August 1, 2008 to September 30, 2009 totaling \$7,602.

Massachusetts Rental Voucher Program (MRVP):

Our review of the Authority's 16 MRVP tenant files revealed that the Authority did not comply with 760 CMR 49.08, which requires that annual rent determinations be performed for each tenant in the MRVP program and defines the items of income and expenses to be used in such determinations. Specifically, our review revealed that the Authority failed to annually review eight eligible tenant files. Because rents were not recalculated annually, the Authority may have paid inappropriate amounts to landlords.

In discussions with the Authority, we found that the administrative assistant who is responsible for the rent determinations was unaware of the regulations.

Recommendation

The Authority should review all annual rent calculations to ensure that they are correct and are consistent with supporting documentation contained in the tenants' files in compliance with DHCD's regulations on rent determinations. In addition, the Authority should credit the tenant living in the Elderly Housing Program who was overcharged.

Auditee's Response

Regarding the Annual Rent Redetermination, additional training of newly hired staff has been completed and that issue is resolved. Additionally, we have established that annual rent redetermination for the Massachusetts Rental Voucher Program will be on a scheduled basis, rather than anniversary dates of lease-up. This method is done in the Chapter 667 and Chapter 705 Programs.

4. MANAGEMENT PLAN NEEDS UPDATING

Our review of the Authority's Management Plan revealed that although the plan had some of the necessary components (e.g., personnel and grievance policies, DHCD regulations regarding tenant selection and rent determinations), there was no indication that it had been adequately updated since 1994. Regular updates and documentation thereof is important in order to reflect changes in the Authority's policies, procedures, and scope of operations. Moreover, an updated and complete Management Plan is the basis for establishing and maintaining the systems necessary for the proper administration of public housing, as well as implementing a system of internal control and ensuring compliance with DHCD's internal control requirements.

DHCD's Accounting Manual for State-Aided Housing Programs states, in part:

The management of each Local Housing Authority [LHA] is responsible for developing and implementing a system of internal control which will:

Safeguard the assets of the organization.

Assure the accuracy and reliability of accounting data.

Promote operational efficiency.

Encourage adherence to prescribed Managerial Policies, State Statutes, and DHCD Rules and Regulations.

Additionally, 760 Code of Massachusetts Regulations (CMR) 4.00, General Administration of Local Housing Authorities, Section 4.03, states, in part:

From time to time the Department may develop and issue guidelines and/or standard forms to be used by the LHA in connection with the provisions of 760 CMR 4.00, 5.00, 6.00, 8.00, 11.00, 49.00, and 53.00 and with reports required by the Department. Each LHA shall employ the current guidelines and the current forms.

Furthermore, 760 CMR 5.16 states, in part:

It is the responsibility of each LHA to ensure that it is adhering to the current guidelines and utilizing all current forms.

The Authority's Management Plan should document all current guidelines, policies, and forms as required by DHCD and the CMRs.

The Executive Director stated that he was in the process of updating the Management Plan.

Recommendation

The Executive Director should continue his efforts to update the Authority's Management Plan.

Auditee's Response

The Management plan has not been updated since 1994, and the Authority will begin to update the plan this year.