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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
MELROSE HOUSING AUTHORITY
JULY 1, 2005 TO JUNE 30, 2008**

**OFFICIAL AUDIT
REPORT
DECEMBER 17, 2008**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Melrose Housing Authority for the period July 1, 2005 to June 30, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. We also conducted a follow-up review of the Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0715-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 36-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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STATUS OF PRIOR AUDIT RESULTS

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Our prior audit (No. 2006-0715-3A) of the Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that a) 57 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing developments, b) the Authority did not reoccupy vacant units in a timely manner, c) the Authority did not receive funding for modernization requests from DHCD, and d) an official written property maintenance plan had not been established by the Authority. Our follow-up review revealed that, as discussed below, the Authority has taken action to remedy these issues.

a. Results of inspections - Compliance with State Sanitary Code

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DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspections of housing units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our prior audit found 57 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint on walls/ceilings, trip hazards, exposed wiring, rotting porches, mold, unsafe handrails, and missing/non-functioning smoke detectors. Our follow-up review determined that the Authority has corrected all of the previously reported instances of noncompliance, and that any new instances of noncompliance with the State Sanitary Code noted during our current inspections were corrected prior to completion of our audit.

b. Vacant Unit Turnaround Time **3**

Our prior audit found that the Authority's average turnaround time for reoccupying vacant units was 131 days. Moreover, we found that there were over 300 applicants on the Authority's waiting list at that time. Our follow-up review revealed that the average turnaround time for reoccupying vacant units has been reduced to 53 days, and that the number of applicants the Authority's waiting list has been reduced to 129.

c. Funding of Modernization Initiatives **4**

Our prior audit found that the Authority had applied to DHCD for funding for capital modernization projects for its state-aided properties, but these requests were not funded by DHCD during the audit period. Our follow-up review indicated that DHCD has funded two of the Authority's four requests and provided grants for other modernization needs. However, the Authority is still awaiting DHCD funding for the remaining two requests and other modernization needs.

d. Official Written Property Maintenance Plan Established **4**

Our prior audit disclosed that the Authority did not incorporate DHCD's Property Maintenance Guide into its policies and procedures. Specifically, we noted that the Authority did not have an official written preventive maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. Our follow-up review determined that the Authority has implemented a written preventive maintenance program that incorporates DHCD's Property Maintenance Guide into its policies and procedures.

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 Melrose Housing Authority for the period July 1, 2005 to June 30, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program.

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

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- 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.
- 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.
- 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's 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.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior report (No. 2006-0715-3A).

Based on our review, we have concluded that, except for the issues discussed in the Audit Results section of this report, during the 36-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

STATUS OF PRIOR AUDIT RESULTS

Our prior audit (No. 2006-0715-3A) of the Melrose Housing Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that a) 57 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing development, b) the Authority did not reoccupy vacant units in a timely manner, c) the Authority did not receive funding for modernization requests from DHCD, and d) an official written property maintenance plan had not been established by the Authority. Our follow-up review revealed that, as discussed below, the Authority has taken action to remedy these issues.

a. Results of Inspections - Compliance with State Sanitary Code

DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspections of housing units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our prior audit of the Authority noted 57 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint on walls/ceilings, trip hazards, exposed wiring, rotting porches, mold, unsafe handrails, and missing/non-functioning smoke detectors. Our follow-up review determined that the Authority has corrected all of the previously reported instances of noncompliance, and that any new instances of noncompliance with the State Sanitary Code noted during our current inspections were corrected prior to the completion of our audit.

b. Vacant Unit Turnaround Time

Our prior audit found that the Authority's average turnaround time for reoccupying vacant units was 131 days. Moreover, we found that there were over 300 applicants on the Authority's waiting list at that time. 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 average turnaround time for reoccupying vacant units has been reduced to 53 days, and that the Authority has reduced the number of applicants on its waiting list to 129. We commend the Authority for achieving these decreases. However, further improvements are needed to comply with DHCD requirements.

c. Modernization Initiatives Funded

Our prior audit found that the Authority had applied to DHCD for funding for four capital modernization projects for its state-aided properties, but these requests were not funded by DHCD during the audit period. Our follow-up review indicated that DHCD has funded two requests (water main replacement and kitchen/bathroom upgrade) and provided grants for other modernization needs (sprinkler system, electric heater repair, emergency generator replacement, community room ceiling, porch/stair repairs, basement flooding, and accessibility improvements). However, the Authority is still awaiting funding for the two remaining requests (window replacement at the McCarthy Building and 2 Trenton Street) and other modernization needs (walkways/parking area repairs and 499 Lebanon Street renovations).

Deferring or denying needed modernization funding may result in further deteriorating conditions that could render the units and buildings uninhabitable. 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 Authority's modernization needs into future years will cost the Commonwealth's taxpayers additional money due to inflation, higher wages, and other related costs.

d. Official Written Property Maintenance Plan Established

Our prior audit report disclosed that the Authority did not incorporate DHCD's Property Maintenance Guide into its policies and procedures. Specifically, we noted that the Authority did not have an official written preventive maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. Our follow-up review determined that the Authority has implemented a written preventive maintenance program that incorporates DHCD's Property Maintenance Guide into its policies and procedures.

Recommendation

We recommend that the Authority continue with its efforts to reduce the workdays required to renovate vacant apartments, ensure that all vacant units are refurbished and reoccupied within the DHCD timeframe, and appeal to DHCD for funding of its modernization needs. DHCD should

obtain and provide sufficient funds to the Authority in a timely manner to remedy these issues so that it may provide safe, decent, and sanitary housing for its tenants.