



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued July 2, 2015

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## Melrose Housing Authority

For the period January 1, 2012 through December 31, 2013





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July 2, 2015

Mr. Frank Giso III, Chair  
Melrose Housing Authority  
910 Main Street  
Melrose, MA 02176

Dear Chairman Giso:

I am pleased to provide this performance audit of the Melrose Housing Authority. This report details the audit objectives, scope, methodology, and conclusions for the audit period, January 1, 2012 through December 31, 2013. My audit staff discussed the contents of this report with management of the Authority, whose comments are reflected in this report.

I would also like to express my appreciation to the Melrose Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump  
Auditor of the Commonwealth

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## LIST OF ABBREVIATIONS

DHCD	Department of Housing and Community Development
Home Program	Home Investment Partnerships Program
MAHC	Melrose Affordable Housing Corporation
NSC	North Suburban Consortium

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## **EXECUTIVE SUMMARY**

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Melrose Housing Authority for the period January 1, 2012 through December 31, 2013. In performing this audit, we reviewed and assessed selected financial and management activities of the Authority, such as financial operations, tenant eligibility, rent determinations, site inspections and maintenance services, cost allocations, compliance with the Department of Housing and Community Development's reporting requirements, procurement of goods and services, contracting and leasing, and related-party transactions.

Based on our audit, we have concluded that the Melrose Housing Authority has established adequate management controls and practices in the areas reviewed that were related to our audit objectives. We did not identify any significant deficiencies in those areas.

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## OVERVIEW OF AUDITED ENTITY

The Melrose Housing Authority is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. Its administrative office is located at 910 Main Street in Melrose, Massachusetts. The Authority manages and oversees 305 units of state housing for elderly tenants, 17 units of state scattered-site housing for low-income families, and one eight-bedroom home for special-needs tenants. It also administers 240 federal housing vouchers.

A five-member board of commissioners, selected from city residents, is responsible for governance of the Authority. Four of the board members are appointed by the mayor. The fifth is appointed by the Governor. The board has hired an executive director to manage the Authority's day-to-day operations.

The Authority provides administrative and maintenance services to the Melrose Affordable Housing Corporation (MAHC), a nonprofit corporation organized under Chapter 180 of the General Laws to promote the development of housing for low- or moderate-income people in Melrose. MAHC reimburses the Authority for costs that it incurs in providing maintenance services. The Authority also charges MAHC 10% of the latter's rent collections to provide administrative services. MAHC owned 12 rental units as of December 31, 2013. Two members of MAHC's board of directors are also members of the Authority's board of commissioners.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Melrose Housing Authority for the period January 1, 2012 through December 31, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Authority have adequate controls over financial operations in the following areas: administrative expenditures, subsidy calculations, accounts receivable and rent collections, cash management, and development and modernization funds?	Yes
2. Did the Authority determine tenant eligibility, placement, and monthly rent in accordance with the Department of Housing and Community Development's (DHCD's) regulations?	Yes
3. Were the Authority's procedures, such as site inspections and maintenance/repairs, adequate to ensure that housing units met safety and sanitation requirements and that units were filled in accordance with DHCD guidelines?	Yes
4. Did the Authority allocate shared costs under a plan that reflected an equitable distribution between state and federal programs?	Yes
5. Did the Authority comply with DHCD's financial reporting and data collection requirements?	Yes
6. Did the Authority have adequate controls over procurement of goods and services?	Yes
7. Did the Authority have adequate controls over contracting and leasing?	Yes
8. Did transactions with related parties (associations, corporations, or other entities) comply with applicable laws, rules, and regulations?	Yes, but see <u>Other Matters</u>

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To achieve our audit objectives, we gained an understanding of, and tested, the relevant internal controls for financial operations, tenant selection and rent determinations, site inspections and property maintenance, cost allocations, procurement, and contracting.

Further, we conducted audit testing in the following areas:

- We reviewed 40 of 1,742 non-payroll disbursements for appropriateness and adequate documentation.
- We reviewed all travel, seminar, and conference expenses to determine whether they were appropriate and properly documented.
- We reviewed 10 of 81 credit-card charges for proper approval, appropriateness, and adequate documentation.
- We reviewed operating subsidies and verified that the amount the Authority earned was consistent with the amount it received from DHCD.
- We reviewed the validity and accuracy of the Authority's accounts receivable and rent collection system to determine whether tenant rent balances were properly recorded and reported.
- We reviewed the Authority's cash management and investment policies and practices by reviewing bank statements and bank reconciliations and verifying that cash balances were correctly reported and deposits were fully insured.
- We tested all DHCD modernization grants to verify that contracts were properly awarded and that funds were received and disbursed in accordance with the grant provisions.
- We reviewed the last 14 newly housed tenants to determine whether the tenant-selection process was operating as required by DHCD.
- We tested 30 of 313 tenant files to verify that rents charged were calculated properly and in accordance with DHCD guidelines.
- We reviewed vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- We reviewed the Authority's site-inspection procedures and inspected 32 of the Authority's 323 units for compliance with the state sanitary code.
- We reviewed and tested the Authority's cost-allocation plan to determine whether it provided for a reasonable allocation of costs among the programs.
- We reviewed the adequacy of procedures in effect to collect data and ensure that required reports were complete, accurate, and submitted to DHCD in a timely manner.



- We tested active modernization work plans and certain operating accounts such as Extraordinary Maintenance, Equipment Purchases, and Betterments and Additions for compliance with competitive bidding requirements.
- We examined contract and leasing records to verify compliance with applicable laws and policies for awarding contracts.
- We reviewed maintenance and repair services provided by the Authority to the Melrose Affordable Housing Corporation (MAHC) by testing six work orders for mathematical accuracy, appropriate documentation, authorized signatures, and correct reimbursements. We also reviewed journal vouchers for maintenance services provided to MAHC for an entire year to determine whether charges from the Authority to MAHC were reasonable and properly reflected on the Authority's records.
- We verified that the Authority charged MAHC the correct management fee (10% of MAHC's rent collections) by comparing the Authority's accounting records to MAHC records for agreement. We also reviewed MAHC's rent reconciliation for one month for reasonableness and mathematical accuracy.
- We reviewed the real property and related transactions between the Authority and MAHC for compliance with Chapter 130 of the Acts of 2012 (An Act Authorizing the Conveyance of Certain Properties by the Melrose Housing Authority in the City of Melrose).

We obtained financial data from information systems used by the Authority and from its fee accountant. We compared these data with source documents and various reports and determined that the computer-generated data were sufficiently reliable for the purposes of our report. We used a combination of statistical and non-statistical sampling to help us achieve our audit objectives and did not project our results to the population.

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## OTHER MATTERS

Chapter 130 of the Acts of 2012 (An Act Authorizing the Conveyance of Certain Properties by the Melrose Housing Authority in the City of Melrose) allowed the Melrose Housing Authority to transfer two of its Chapter 689 special-needs housing properties—165 Trenton Street (Project 689-1) and 499-501 Lebanon Street (Project 689-2)—to the Melrose Affordable Housing Corporation (MAHC) for \$1 each. Under this legislation, when MAHC sold the properties, either the first \$379,763 or 50% of the net sale proceeds—whichever was greater—would be remitted to the Authority. The \$379,763 represents the amount of Commonwealth bond funds the Authority originally spent to purchase the Trenton and Lebanon Street properties. Chapter 130 requires the Authority to use its share of the sale proceeds solely for the repair of its state-assisted Chapter 705 family housing units. The Authority is required to keep the sale proceeds in a bank account separate from other state or federal accounts.

MAHC is a nonprofit corporation organized under Chapter 180 of the Massachusetts General Laws to provide affordable housing in Melrose. Under Chapter 130, if MAHC sells the Trenton and Lebanon Street properties, it must use its share of the sale proceeds (any amount above \$379,763) to acquire or develop one or more properties that must be used as low- or moderate-income housing within the city of Melrose. If it does not comply with the low- and moderate-income restriction, MAHC must remit any of the invested sale proceeds to the Authority.

The Authority transferred the properties to MAHC because the former could not afford to repair them as group homes or renovate them as multifamily housing in accordance with then-current housing-code requirements. The Authority's board of commissioners received approval to transfer the properties with the enactment of Chapter 130 of the Acts of 2012. On March 12, 2013, the board gave MAHC its approval to sell the properties to third parties after the transfer, at \$311,500 for the Lebanon Street property and \$418,500 for the Trenton Street property.

According to the records on file at the Registry of Deeds, the Authority transferred the Lebanon Street property to MAHC on March 14, 2013 and the Trenton Street property on April 8, 2013 (each for \$1 consideration), the same days MAHC sold these properties to third parties. After closing costs and brokers' commissions, MAHC received net proceeds of \$696,784 from the two sales. MAHC remitted \$379,763 to the Authority and retained the remaining \$317,021. On December 20, 2013, MAHC's chairman executed an affidavit explaining that the transfers to MAHC and subsequent sales were

approved by the Department of Housing and Community Development (DHCD) and the Authority's board of commissioners. The affidavit, which was filed at the Registry of Deeds, has recitations from Chapter 130 and approvals from DHCD and was executed to clarify the chain of title.

In anticipation of using the proceeds from these two sales, MAHC purchased a three-family property on September 21, 2012 for \$600,000 plus closing costs. The purchase was financed by three mortgage loans. When MAHC received its share of the Trenton Street and Lebanon Street sale proceeds, it paid off a loan of \$95,048 that it had used to finance part of the September 21, 2012 property purchase. Subsequently, MAHC spent \$70,000 on improvements of the new property, including de-leading, new heating systems, and a new roof. The president of MAHC told us that the remaining sale proceeds (\$151,973 out of the original \$317,021) would be used to purchase another property.

One of the lenders that provided financing to MAHC for this property was the North Suburban Consortium (NSC), an entity that makes loans under the federal Home Investment Partnerships Program (Home Program) to sponsors of certain types of affordable housing. NSC required MAHC to execute and file an Affordable Housing Restriction with the Registry of Deeds. The restriction required MAHC to rent two of the property's units as low-income housing and allowed the third unit to be rented at market rate. The duration of the property restriction is 15 years for the benefit of NSC and 30 years for the benefit of the City of Melrose.

Section 4(b) of Chapter 130 of the Acts of 2012 also requires an affordability restriction as follows:

*If MAHC uses any invested disposition proceeds to acquire or develop a property, MAHC and the authority shall enter into a recorded affordability restriction which restricts the use of such property solely for low and moderate income housing in perpetuity. The restriction shall be on a form approved by [DHCD] to ensure compliance with this act, enforceable by the authority for each such property and shall provide that if any of the units in such property fails to be maintained for occupancy for low or moderate income families only, any of the invested disposition proceeds used in relation to such property shall be repaid to the authority.*

MAHC did not file an affordability restriction in compliance with Chapter 130 but rather relied on the restriction required by NSC. MAHC indicated that it believed compliance with the Home Program restrictions would satisfy the requirements of Chapter 130. However, the Chapter 130 restriction does not allow the rental of market-rate housing units and requires that the restriction run in perpetuity rather than running for a fixed duration as MAHC's current property restriction does.

The Authority's executive director told us that MAHC was working with NSC to develop a solution to comply with the Chapter 130 affordability restriction so that it would not have to return the invested proceeds to the Authority. The Authority should monitor MAHC's progress in complying with the deed restrictions required by Chapter 130 and require a refund of the invested proceeds if the affordability restrictions are not followed.

### **Auditee's Response**

The Authority responded to our draft report as follows:

*The Melrose Housing Authority recognizes that under Chapter 130 of the acts of 2012, that the MAHC must use its share of the proceeds from the sale to acquire or develop one or more properties that must be used as low, or moderate income within the city of Melrose. The MHA will work with MAHC to take appropriate steps that will bring it into compliance with Chapter 130.*