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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
METHUEN HOUSING AUTHORITY
JULY 1, 2005 TO MARCH 31, 2009**

**OFFICIAL AUDIT
REPORT
SEPTEMBER 28, 2009**

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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 Methuen Housing Authority for the period July 1, 2005 to March 31, 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. We also conducted a follow-up review of the Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0718-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 45-month period ended March 31, 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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STATUS OF PRIOR AUDIT RESULTS

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Our prior audit of the Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that (a) various instances of noncompliance with the State Sanitary Code existed at the Authority's state-aided housing developments, and (b) modernization requests had not been funded by the Department of Housing and Community Development (DHCD). Our follow-up review disclosed that although the Authority had taken action to remedy these issues, further improvements were needed, as discussed below.

a. 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 of the Authority noted 21 instances of noncompliance with Chapter II of the State Sanitary Code, including sidewalks in need of resurfacing, floor tiles and handrails in need of replacement, chipped bathroom ceilings and grout, bathroom walls in need of repair, bathrooms in need of exhaust fans, and cement steps in need of repair. Our follow-up review determined that the Authority had taken corrective action to address 15 of the prior instances of noncompliance; however, six issues remained unaddressed (i.e., handrails in need of replacement, sidewalks in need of resurfacing, cement steps in need of repair, kitchen countertops in need of replacement, outdated central alarm system, and window seals in need of replacement).

b. Modernization Initiatives**3**

Our prior audit found that although the Authority had applied to DHCD for funding for 12 capital modernization projects for its state-aided properties, the requests were not funded by DHCD during the prior audit period. Our follow-up review determined that two requests were partially funded, whereas the remaining 10 requests were unfunded.

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 Methuen Housing Authority for the period July 1, 2005 to March 31, 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.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and determine whether 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 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. 2006-0718-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 45-month period ended March 31, 2009, 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 of the Methuen Housing Authority disclosed that (a) various instances of noncompliance with the State Sanitary Code existed at the Authority's state-aided developments, and (b) modernization requests had not been funded by DHCD. Our follow-up review disclosed that although the Authority had taken action to remedy these issues, further improvements were needed, as discussed below:

a. 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 21 instances of noncompliance with Chapter II of the State Sanitary Code, including sidewalks in need of resurfacing, floor tiles and handrails in need of replacement, chipped bathroom ceilings and grout, bathroom walls in need of repair, bathrooms in need of exhaust fans, and cement steps in need of repair. Our follow-up review determined that the Authority had taken corrective action to address 15 of the prior instances of noncompliance; however, six issues remained unaddressed (i.e., handrails in need of replacement, sidewalks in need of resurfacing, cement steps in need of repair, kitchen countertops in need of replacement, outdated central alarm system for project 667-1, and window seals in need of replacement). The Authority indicated that it is awaiting modernization funding from DHCD to address these issues (see below).

b. Modernization Initiatives

Our prior audit found that although the Authority had applied to DHCD for funding for 12 capital modernization projects for its state-aided properties to upgrade sidewalks, cement stairs, handrails, intercom systems, fire alarms, pump station and heating controls, special needs units, and kitchens and bathrooms, the requests were not funded by DHCD during the audit period. Our follow-up review determined that two requests were partially funded (200-1 Family Housing: repair/replace crumbling steps and deteriorating handrails, and 689-1 Handicapped Housing: comprehensive modernization) and 10 requests remained unfunded (200-1 Family Program: repair/replace pump lift station and relocate heating controls, kitchen and bathroom

replacement; and 667-1 Elderly Programs: intercom system installation, repair deteriorating handrails/railings, steps, and sidewalks, fire alarm upgrade, and kitchen and bathroom replacement).

Deferring or denying the Authority's modernization needs 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 modernization needs of the Authority into future years will cost the Commonwealth's taxpayers additional money due to inflation, higher wages, and other related costs.

Recommendation

The Authority should continue to appeal to DHCD to provide the necessary funding to address its modernization needs. DHCD, in turn, 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.

Auditee Response

The Authority indicated that it agrees with the Audit Results.