



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

*Making government work better*

Official Audit Report- Issued February 2, 2012

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## Millbury Housing Authority

For the period October 1, 2008 through December 31, 2010



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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Millbury Housing Authority for the period October 1, 2008 through December 31, 2010. The objectives of our audit were to review and analyze the Authority's management controls and practices over certain areas and functions for the purpose of determining their adequacy and to review the Authority's compliance with laws, rules, and regulations. We also conducted a follow-up review of the Authority's progress in addressing the issue noted in our prior audit report (No. 2008-0724-3A).

Based on our review we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period October 1, 2008 through December 31, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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## **INTRODUCTION**

### ***Background***

The Millbury Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority has 169 one-bedroom apartments located at Colonial Drive, Pearl Street and South Main Street for elderly and handicapped residents (Chapter 667) and 13 family units (Chapter 705, one, two, three and four bedroom apartments) located at Burbank Street, Riverlin Street, Waters Street, West Main Street, North Main Street, and Forest Drive. There are 25 family units (Chapter 200, two and three bedroom apartments) located on Memorial Drive. The Authority also has three filled vouchers for the Massachusetts Rental Voucher Program with two units located in Millbury and the other unit in Northbridge.

### ***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Millbury Housing Authority for the period October 1, 2008 through December 31, 2010. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivables; (5) site inspections; (6) payroll, travel, and fringe benefits; (7) disbursements; (8) inventory controls over property and equipment; (9) contract procurement; (10) cash management and investment practices; (11) Department of Housing and Community Development (DHCD)-approved budgets versus actual expenditures; (12) level of need for operating subsidies and operating reserves; (13) the Massachusetts Rental Voucher Program; and (14) off-line housing units. We also conducted a follow-up review of the Authority's progress in addressing the issues noted in our prior audit report (No. 2008-0724-3A).

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 findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with 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.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition and to determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.
- Procedures for making payments 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.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD regulations.
- 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.
- Net assets-unrestricted account 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.

- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with contract provisions and that rental charges by landlords were consistent with established rules and regulations.
- The number of off-line housing units, the length of time each unit has been off-line, and the Authority's plan's for moving the units on-line.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2008-0724-3A).

Based on our review we have concluded that, except for the issues addressed in the Audit Results section of this report, for the period October 1, 2008 through December 31, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS UNRESOLVED

Our prior audit report of the Millbury Housing Authority (No. 2008-0724-3A), which covered the period July 1, 2005 through January 31, 2008, noted that improvements were needed in the areas of (a) compliance with Chapter II of the State Sanitary Code, (b) vacant unit reoccupancy, and (c) Department of Housing and Community Development (DHCD) funding of modernization initiatives. Our follow-up review indicated that these issues remained unresolved, as follows:

#### a. Noncompliance with State Sanitary Code

Our prior inspection of the Authority's housing units noted 26 instances of noncompliance with Chapter II of the State Sanitary Code, including mold and mildew, broken windows, water damage, and damaged flooring. These 26 unresolved violations were found in two 705-1 family homes, with eight violations reported at 21 Forest Drive (upstairs unit) and 18 violations continuing at 256 North Main Street, a vacant house in need of total refurbishment.

Our follow-up review revealed that the condition of the units at Forest Drive and North Main Street Family Housing had not improved since our last audit. These units need extensive renovations, for which funds are not currently available. The North Main Street property has been vacant since February 2005 and continues to be boarded up for safety reasons. The Forest Drive unit has been off-line since 1998.

#### ***Recommendation***

The Authority should continue to work with DHCD to acquire the necessary funding to renovate these units.

#### ***Auditee Response***

The Authority's Executive Director responded, in part:

*The first issue of noncompliance with the State Sanitary Code involves two properties that are in very serious disrepair and have been "off-line" for several years. The two units mentioned in the report are in need of extensive work to get them back on line. As the housing authority is now a subsidized authority, there is no money in our everyday operating funds to repair and rehab these units and the Department of Housing and*

*Community Development has not made money available to us to rehab the properties. One of the units will have to be torn down and replaced in its entirety if we want to keep it at all. It is located on a street that is primarily zoned for business/industrial use. I have been approached by two different landscaping businesses that would like to buy the land and use it for their equipment. While I am very interested in doing that, when I approached DHCD with the idea I was told that we could not dispose of a property unless we had another to replace it. Needless to say, if there are no funds available for rehab, there are no funds available for purchasing a replacement. I intend to continue to work with DHCD and see if we can find a way to sell the property. In the event that we could do that in the future, I would like to put the money earned from the sale into our reserves, which would help to address another issue – that our reserves being below recommended levels. The second property is a single-family home that the original owner divided making an in-law apartment in the upstairs of the house. It was done in a very slipshod manner and the property was purchased, in the early 1980's under the Chapter 705 acquisition program, with that in-law apartment counted as a one-bedroom family unit. Personally, I don't believe that the older, larger-sized family units purchased under the Chapter 705 acquisition program was a practical move. Today, 25 to 30 years later they are in need of extensive rehab, and there are no funds available to do that. However, I will continue to work with DHCD to try to secure funds for the rehab of these units, or in the alternative, dispose of them.*

**b. Vacant Units Not Reoccupied within DHCD Guidelines**

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Our prior audit found that the Authority's average turnaround time for reoccupying units was 69 days. As a result, the Authority lost the opportunity to earn approximately \$31,808 in potential rental income.

Our follow-up review found that the Authority had 38 vacant units during our audit period and that the average reoccupancy time for these units was 63 days. As a result, during our audit period, the Authority lost the opportunity to earn potential rental income for these units totaling approximately \$16,121. The Executive Director provided us with a summary of the condition of five units that represented \$10,924 of the potential lost rental income. All of the units required complete cleaning and painting. In addition, four units needed new flooring, three required new bathroom vanities, and two units needed kitchen cabinets and countertops. The Executive Director explained that in four cases, because the units required extensive renovations, the Authority renovated other units because those units could be reoccupied more quickly.

In addition, the Authority was granted waivers for an additional 36 units to allow for a longer period to renovate these units because of their condition or the time it may take to rent these units. We reviewed the units granted waivers and found that 16 units exceeded the waiver period granted by DHCD. We calculated the potential lost rental income from the end of the

waiver period to the date the unit was rented and found the Authority lost the opportunity to earn approximately \$16,684 in potential rental income for these units. Three units account for \$10,361 of the potential lost rental income. According to Authority records, these units required complete cleaning and painting. One unit required an electrical system upgrade; another unit needed a plumbing system upgrade, new flooring, and a new bathroom vanity; and the third unit required bulkhead and shed repairs (this unit was used to store maintenance materials and equipment used by a vendor who was repairing units that sustained storm damage).

We discussed the vacancy issue with the Executive Director, who stated that the Authority prioritizes units that can be renovated quickly and that, during renovations of all units, the staff upgrades the plumbing and electrical systems when necessary. Also, she stated that during our audit period, the Authority had four maintenance staff members; however, one left the Authority and the Authority did not have the funds to hire a new maintenance person. In 2010, one maintenance staff person was out on sick leave for four months, leaving only two staff persons to renovate units, and one of the two remaining staff persons injured his hand but continued to work.

### ***Recommendation***

The Authority should continue to work to reduce its average reoccupancy time. Also, the Authority should work with DHCD to determine whether other methods or procedures are available that could assist the Authority and ensure that its vacant units are refurbished and reoccupied within the timeframe established by DHCD.

### ***Auditee Response***

The Authority's Executive Director responded, in part:

*As I pointed out in my response of July 15, 2008, after the last audit, our maintenance staff does most of the rehab work that needs to be done in our vacant units. While it takes longer to get them back on line, some of the lost rent is recovered by not having to hire outside contractors. I do need to point out that our housing stock, especially the 200 family development and our oldest 667-1 development, are now approximately 60 years old. When these units are vacated, especially the family units, there is often an exceptional amount of work that needs to be done before they can be reoccupied. Also, we are currently down to three maintenance staff, from our original four and one of those DHCD's 21 days is a reasonable amount of time to reoccupy some units. I have continued to ask for waivers for certain units that I know will take longer to rehab, but often those are either denied or just not responded to.*



*To try to help address this issue, I am now in the process of hiring a new maintenance laborer to replace our oldest maintenance worker who is retiring at the end of October. My intention is to hire someone whose main job will be apartment turn over. I'm hopeful that will speed up the reoccupancy issue.*

**c. Modernization Initiatives Not Funded**

Our prior report noted that the Authority had applied to DHCD for funding for capital modernization projects for its state-aided properties; however, those requests were not funded by DHCD. Specifically, the Authority requested funding from DHCD in Conditions Assessment Reports for the following projects:

<u>Date of Request</u>	<u>Housing</u>	<u>Description</u>	<u>Date Funding Denied</u>
10/06/98	Elderly	Paving Sidewalks	02/99
10/10/01	Elderly	Replacement of Hot Water Tanks	12/02
10/10/01	Elderly	Roof Replacement	12/02
10/10/01	Family	Window Replacement	Awarded Then Rescinded - 2004

Previously, DHCD funded its capital improvement projects through individual modernization awards. In June 2010, DHCD initiated a formula funding program to ensure that capital funds awarded to state-aided public housing authorities are distributed in an equitable and predictable manner. Beginning in fiscal year 2012, Authorities will receive a multi-year award of funds that can be used to plan for and implement capital improvements.

Our follow-up review determined that the Authority has not received funding from DHCD to complete its modernization projects. The Executive Director stated that the sidewalk paving project had not been completed, although the Authority had completed the replacement of the hot water tanks at its elderly program using its own funds. The Authority also has replaced some of the windows at its family program while renovating vacant apartments by using its own funds. Finally, the roofing project at its elderly program has not been completed; however, because of storm damage to the roof, the Authority has received insurance funds that will be used to replace the roof.

**Recommendation**

The Authority should consider using funds from its formula funding program to complete its remaining modernization projects.

**Auditee Response**

The Authority's Executive Director responded, in part:

*Over the next three to five years, with formula funding now in place, I plan to use those funds to take care of some of the old capital projects that were not funded as well as newer capital improvement projects.*

**2. RESERVES BELOW RECOMMENDED LEVELS**

The Authority's net assets-unrestricted account, formerly known as the operating reserves, has experienced a decline in the balance below the DHCD-recommended levels for fiscal years 2009 and 2010. Furthermore, the Authority sustained net losses totaling \$10,769 for fiscal year 2009 and \$31,330 for fiscal year 2010. As a result, the Authority may not have the financial resources to fund emergency situations as they arise.

The Authority's net asset-unrestricted account has declined as follows:

<u>Date</u>	<u>Balance</u>
September 30, 2008	\$47,741
September 30, 2009	\$36,972
September 30, 2010	\$ 5,642

Prudent business practices advocate that the Authority have sufficient reserves to pay for any unforeseen expenses. Moreover, DHCD's Accounting Manual, Section 14, states, in part:

*DHCD believes the one true indicator of the financial status of a management program is a correctly calculated operating reserve. Operating reserve is not just the combination of unrestricted and restricted net assets but is calculated by adding certain GAAP expenditures to the total of these two balances. . . . The purpose of the operating reserve is threefold. First, the operating reserve allows LHAs [local housing authorities] to have funds necessary for cash flows. Some months more cash is paid out than is received and it is therefore necessary to have additional cash to meet these needs. Second, LHAs must have reserve funds to meet emergency situations such as major boiler or roof repairs that have not been anticipated in the budget. Third, the operating reserve is used to fund non-routine expenditures such as the replacement of refrigerators and ranges. DHCD has established full and minimum balances for operating reserves that*

*act as benchmarks for LHAs to assess the relative value of their operating reserve balances. The problem in evaluating the operating reserve has always been the question of what is the true balance. The operating reserve actual balance is always some balance either positive or negative, but the true operating reserve balance requires an analysis of the balance sheet and an understanding of how balance sheet items affect operating reserve.*

DHCD measures the net assets-unrestricted balance based on the maximum and minimum amount balances at the close of each fiscal year. The maximum amount is based on 50% of the fiscal year budgeted expenditures and the minimum was 40% of the maximum amount during fiscal year 2009 and 20% of the maximum during fiscal year 2010. During fiscal years 2009 and 2010, the Authority's net assets-unrestricted account was below DHCD's recommended minimum levels, as outlined in the chart below:

	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2010</u>
Maximum Reserve Levels	\$485,800	\$484,499
Minimum Reserve Levels	\$194,320	\$96,900
Net Asset Balance Year End	\$36,972	\$5,642
Percentage of Maximum	7.61 %	1.16%

The chart below identifies the budgeting practices of the Authority as a factor in the reduction in the net assets-unrestricted account. We found that the Authority had projected a loss in one of the two years; however, each year the Authority sustained losses that resulted in the net assets-unrestricted account continuing to decline below the minimum levels suggested by DHCD.

<u>Fiscal Year</u>	<u>Budgeted Net Profit (Loss)</u>	<u>Actual Net Loss</u>	<u>Difference</u>
2009	\$842	(\$10,769)	(\$11,611)
2010	(\$5,000)	(\$31,330)	(\$26,330)

Without the proper monitoring of the budget by the Board of Directors and the Executive Director, the Authority may not be able to address emergency situations arising in the future.

### ***Recommendation***

The Executive Director and the Board of Directors should review future budgets and monitor current spending to determine whether adjustments can be made that will increase the Authority's reserves to ensure that it has adequate funds available for unforeseen or emergency circumstances. The OSA has sent a copy of this report to DHCD officials requesting they

review their policies regarding housing authorities with inadequate reserve levels and evaluate the causes of this growing problem.

***Auditee Response***

The Authority's Executive Director responded, in part:

*As to the issue of trying to build up any reserves, I see that as extremely difficult now that we require a subsidy to operate. While I may be able to increase the monthly rent roll by reoccupying apartments more quickly, any increase in income will eventually reduce the subsidy that we receive from DHCD.*

*I will work with the Board of Directors and our Fee Accountant in formulation of the Fiscal 2012 budget and see if there are areas where expenses can be reduced. However, as I see it, the budget is really a "best guess" of income and expenses in any given year because there are so many variables that affect the actual figures.*