



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-0769-3A

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
SALEM HOUSING AUTHORITY
OCTOBER 1, 2006 TO MARCH 31, 2008**

**OFFICIAL AUDIT
REPORT
SEPTEMBER 16, 2008**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Salem Housing Authority for the period October 1, 2006 to March 31, 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. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2006-0769-3A).

Based on our review, we have concluded that during the 18-month period ended March 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

3

PRIOR AUDIT RESULTS RESOLVED

3

Our prior audit of the Authority, which covered the period July 1, 2003 to June 30, 2005, noted several instances of noncompliance with the State Sanitary Code and the Department of Housing and Community Development's (DHCD) Property Maintenance Guide. Specifically, our previous audit disclosed that a) 18 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing units, and b) modernization needs were unfunded by DHCD. Our follow-up review indicated that the Authority has adequately addressed the above issues as follows:

a. Results of Inspections - Compliance with State Sanitary Code

3

Our prior audit identified 18 instances of noncompliance with Chapter II of the State Sanitary Code, including water leaks from roofs, walls and windows stained with mold and mildew, damaged countertops, and deteriorating cement stairs. DHCD's 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 minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our follow-up review determined that the Authority has taken corrective action to address all of the previously reported instances of noncompliance. Our current audit inspections revealed no new instances of noncompliance with Chapter II of the State Sanitary Code.

b. Modernization Initiatives Funded

3

Our prior audit found that the Authority needed modernization funding to upgrade old kitchens and bathrooms where mold had developed. The Authority submitted Condition Assessment Reports (CARs) to DHCD for various needs and was awarded the maximum funding available. However, funding was not awarded by DHCD to upgrade the Authority's kitchens and bathrooms. Our follow-up review revealed that the

Authority has since submitted additional CARs to DHCD and was subsequently awarded additional funding to upgrade its kitchens and bathrooms.

INTRODUCTION

Audit Scope, Objective, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Salem Housing Authority for the period October 1, 2006 to March 31, 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 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.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance 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 audit report (No. 2006-0769-3A).

Based on our review, we have concluded that during the 18-month period ended March 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

PRIOR AUDIT RESULTS RESOLVED

Our prior audit (No. 2006-0769-3A) of the Salem Housing Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed several instances of noncompliance with the State Sanitary Code and the Department of Housing and Community Development's (DHCD) Property Maintenance Guide. Specifically, our previous audit disclosed that a) 18 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing units, and b) modernization needs remained unfunded by DHCD. Our follow-up review indicated that the Authority has adequately addressed the above issues, as follows:

a. Results of Inspections - Compliance with State Sanitary Code

Our prior audit identified 18 instances of noncompliance with Chapter II of the State Sanitary Code, including water leaks from roofs, walls and windows stained with mold and mildew, damaged countertops, and deteriorating cement stairs. DHCD's 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 minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our follow-up review determined that the Authority has taken corrective action to address the 18 previously reported instances of noncompliance. Our current audit inspections revealed no new instances of noncompliance with Chapter II of the State Sanitary Code.

b. Modernization Initiatives Funded

Our prior audit found that the Authority needed modernization funding to upgrade old kitchens and bathrooms where mold had developed. The Authority submitted Condition Assessment Reports (CARs) to DHCD for various needs, and was awarded the maximum funding available. However, funding was not awarded by DHCD to upgrade the Authority's kitchens and bathrooms. Our follow-up review revealed that the Authority's has submitted updated CARs to DHCD and was subsequently awarded additional funding to upgrade its kitchens and bathrooms.