



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

*Making government work better*

Official Audit Report – Issued May 30, 2018

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## Wellesley Housing Authority

For the period January 1, 2014 through December 31, 2016





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

*Making government work better*

May 30, 2018

Ms. Maura Renzella, Chair of the Board of Commissioners  
Wellesley Housing Authority  
109 Barton Road  
Wellesley, MA 02481

Dear Ms. Renzella:

I am pleased to provide this performance audit of the Wellesley Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2014 through December 31, 2016. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

Suzanne M. Bump  
Auditor of the Commonwealth

cc: Mr. Paul Dumouchel, Executive Director

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## LIST OF ABBREVIATIONS

CMR	Code of Massachusetts Regulations
DHCD	Department of Housing and Community Development
LHA	local housing authority
OSA	Office of the State Auditor

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## EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of the Wellesley Housing Authority for the period January 1, 2014 through December 31, 2016. Because of the results of our audit planning procedures, it was necessary to extend our audit period in the area of inventory through May 1, 2017.

In this performance audit, we reviewed and assessed certain aspects of the Authority's operations related to administrative expenses, annual unit inspections, tenant eligibility, applicant waiting lists, procurement of goods and services, board governance, inventory of fixed assets, compliance with applicable reporting requirements, and the Authority's management agreement with the Needham Housing Authority.

Below is a summary of our findings and recommendations, with links to each page listed.

<b>Finding 1</b> <b>Page <a href="#">8</a></b>	Deficiencies in the Wellesley Housing Authority's inventory process resulted in unaccounted-for assets.
<b>Recommendations</b> <b>Page <a href="#">10</a></b>	<ol style="list-style-type: none"><li>1. The Authority should update its formal written policies and procedures governing all aspects of its inventory process as well as monitoring controls to ensure that this process is adhered to.</li><li>2. The Authority should conduct an inventory of all ranges and refrigerators, reconcile it to the current inventory list, and investigate any discrepancies.</li></ol>
<b>Finding 2</b> <b>Page <a href="#">11</a></b>	The Wellesley Housing Authority did not properly administer the procurement of \$113,206 of appliances and water heaters.
<b>Recommendation</b> <b>Page <a href="#">13</a></b>	The Authority should update its formal written procurement policies and procedures, which require it to use competitive procurement, as far as possible, for goods and services, and should ensure that these policies and procedures are adhered to.
<b>Finding 3</b> <b>Page <a href="#">14</a></b>	The Authority did not maintain housing inspection reports.
<b>Recommendations</b> <b>Page <a href="#">14</a></b>	<ol style="list-style-type: none"><li>1. The Authority should establish policies and procedures for its unit inspection process.</li><li>2. The Authority should establish monitoring controls over the inspection process to ensure that its staff consistently adheres to the policies and procedures.</li><li>3. The Authority should retain copies of all inspection reports in its files.</li></ol>

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<b>Finding 4</b> <b>Page 15</b>	The Authority did not properly administer its rent redetermination process.
<b>Recommendation</b> <b>Page 17</b>	The Authority should develop and implement policies and procedures for its rent redetermination process that are consistent with Department of Housing and Community Development (DHCD) regulations and should implement monitoring controls to ensure that its staff consistently adheres to these requirements.
<b>Finding 5</b> <b>Page 17</b>	The Authority did not maintain its waiting list information or obtain all the required information from housing applicants in DHCD's prescribed manner.
<b>Recommendations</b> <b>Page 19</b>	<ol style="list-style-type: none"><li>1. Until it obtains a waiver from DHCD, the Authority should maintain hardcopy program waiting list ledgers.</li><li>2. The Authority should ensure that housing applications are date- and time- stamped; that they include emergency applications when applicable, as well as control numbers and landlord references; and that written offers for housing are accepted within the prescribed timeframe.</li><li>3. The Authority should establish policies, procedures, and monitoring controls over the application process to ensure that all information required during the process is obtained according to DHCD requirements.</li><li>4. The Authority should assign an employee the responsibility of accepting applications and ensuring that each application complies with DHCD regulations.</li></ol>
<b>Finding 6</b> <b>Page 21</b>	The Authority's board of commissioners did not properly administer its management agreement with the Needham Housing Authority.
<b>Recommendation</b> <b>Page 22</b>	Before awarding or entering into a management agreement, the Authority should submit it to DHCD for review and approval.

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## OVERVIEW OF AUDITED ENTITY

The Wellesley Housing Authority is authorized by, and operates under, Chapter 121B of the Massachusetts General Laws, as amended. Its administrative offices are at 109 Barton Road in Wellesley.

The Authority is governed by a five-member board of commissioners; four commissioners are elected by the citizens of Wellesley, and one is appointed by the Department of Housing and Community Development in coordination with the Governor. The Authority currently manages and oversees 133 units of state housing for elderly tenants, 90 units of state housing for low-income families, 12 units of scattered housing for low-income families, 1 unit under the Massachusetts Rental Voucher Program, and an additional 11 units of federal family housing that are administered by the Dedham Housing Authority.

During the audit period, the Authority's board of commissioners appointed the executive director of the Needham Housing Authority to act as executive director of the Wellesley Housing Authority, managing the latter's day-to-day operations, effective January 1, 2013. Although both housing authorities are managed by the Needham Housing Authority, they still maintain separate administrative and accounting functions, and each has a separate board of commissioners. The Wellesley Housing Authority pays a monthly management fee to the Needham Housing Authority for the daily administration and operation of the Wellesley Housing Authority's non-Section 8 programs.<sup>1</sup>

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1. Section 8 housing programs were developed by the US Department of Housing and Urban Development to help low-income families obtain affordable housing. Applicants are given vouchers that they can use to rent housing from landlords who agree to participate in this program in the open market. The tenant pays 30% of the monthly rent, and the housing authority pays the remaining rent directly to the landlord.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Wellesley Housing Authority for the period January 1, 2014 through December 31, 2016. Because of the results of our audit planning procedures, it was necessary to extend our audit period in the area of inventory through May 1, 2017.

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.

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. Does the Authority perform and document annual inspections of all housing units?	No; see Finding <u>3</u>
2. Are the board of commissioners' meetings held as required, are there quorums at the meetings, and do the commissioners oversee and govern the Authority's business affairs?	Yes
3. Does the Authority ensure that eligible tenants are housed in accordance with the requirements of the Department of Housing and Community Development (DHCD)?	No; see Finding <u>5</u>
4. Do the Authority's administrative expenses have adequate supporting documentation, and are the expenses related to the business of the Authority?	Yes
5. Was the Authority's management agreement with the Needham Housing Authority approved by DHCD, and are the contract amount and all payments to the Needham Housing Authority under the contract appropriate?	No; see Finding <u>6</u>
6. Does the Authority procure goods (specifically ranges, refrigerators, and water heaters) in accordance with Sections 2 and 4 of Chapter 30B of the General Laws?	No; see Finding <u>2</u>
7. Does the Authority maintain a complete and up-to-date inventory list of its ranges and refrigerators and conduct an annual physical inventory in accordance with DHCD requirements?	No; see Finding <u>1</u>



Objective	Conclusion
8. Did the Authority perform rent determinations and annual rent redeterminations during the audit period and correctly calculate rents in accordance with DHCD requirements?	<b>No; see Finding 4</b>

To achieve our audit objectives, we gained an understanding of the internal control environment and tested the relevant internal controls for governance and administrative expenses.

## Governance

For our testing of board governance, we obtained and reviewed all the board of commissioners' meeting minutes to determine whether meetings were attended by a quorum of board members when the board was conducting business, as required by its bylaws and DHCD regulations.

## Administrative Expenses

For our administrative expense testing, we selected 60 items randomly and an additional 35 items judgmentally from a population of 2,222 transactions made by the Authority during the audit period. We tested these expenditures to determine whether they were related to the business purposes of the Authority and had adequate supporting documentation.

## Annual Unit Site Inspections

To test whether the Authority complied with DHCD requirements for the annual inspection of tenant-occupied units, we selected a nonstatistical sample of 25 tenants from the rent roll of 231 tenants as of December 31, 2016 and reviewed any inspection records the Authority had on file for these tenants' dwellings.

## Procurement

For our testing of procurement, we requested documentation to support the Authority's procurement of all appliances it purchased during our audit period. We also requested and obtained the Authority's annual budgets, bidding documents, general ledgers, invoices, check registers, work orders, and inventory list of refrigerators and ranges for the audit period. In addition, to determine whether the Authority could account for its new purchases, we selected and compared the range and refrigerator serial numbers on the work orders to the serial numbers on the invoices. We also selected a judgmental sample of 30 purchase orders (15 for refrigerators and 15 for ranges) that identified specific units where

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appliances were delivered. For these purchase orders, we inspected the units and determined whether the serial number on each purchase order and related invoice matched the one on an appliance in each unit. We then compared all appliance work orders executed during the audit period to the Authority's inventory list to determine whether any appliances had been installed in housing units but were not on the inventory list.

## **Inventory**

We requested and obtained the Authority's most recent inventory list of ranges and refrigerators. We determined whether the list was up to date and whether the Authority conducted an annual inventory. From the rent rolls, we selected a nonstatistical sample of 40 housing units from the rent roll of 231 units as of December 31, 2016. From the 40, we selected 20 units and compared the inventory list of ranges and refrigerators to the appliances in each unit; we then compared an inventory of the appliances in the other 20 units to the inventory list to check for accuracy.

We also reviewed the inventory list to determine whether it complied with DHCD requirements.

## **Tenant Eligibility**

For our review of tenant eligibility, we requested and obtained the Authority's master waiting list ledger to determine whether the Authority was properly updating it. We also determined whether housing applicants' names were properly transferred from the master waiting list ledger to the appropriate program waiting list ledgers and whether applicants were notified of vacancies in accordance with DHCD requirements. However, as discussed in the Detailed Audit Findings with Auditee's Response section of this report, the Authority did not maintain hardcopy program waiting list ledgers, so we were unable to determine whether applicants were selected in accordance with DHCD requirements. We requested the files for the 10 tenants who had moved in most recently during fiscal year 2016. We reviewed these files to determine whether the Authority obtained and maintained all the relevant documentation required by DHCD.

## **Rent Redeterminations**

For rent redeterminations, we selected a nonstatistical sample of 25 tenants from a population of 231 to verify that each tenant's rent was calculated accurately and that there was supporting documentation

for income and deductions. We also reviewed each tenant's lease addendum for accuracy and compliance with DHCD requirements.

### **Management Agreement**

We requested and obtained the management agreement between the Wellesley Housing Authority and the Needham Housing Authority. We also obtained and reviewed all of the meeting minutes of the Wellesley Housing Authority's board of commissioners from the audit period to determine whether this agreement was properly authorized by the board and executed by management. We also determined whether DHCD had approved the management agreement as required by DHCD guidelines. Further, we reviewed all monthly payments by the Wellesley Housing Authority to the Needham Housing Authority during the audit period to determine whether they were in accordance with the agreement.

### **Data Reliability**

The Authority contracts its financial reporting to a third-party fee accountant. The fee accountant receives source documents from the Authority's administrative staff and generates the Authority's general ledger and financial statements using Client Ledger software. We determined the reliability of data from the Authority's financial reporting system by tracing certain electronic transactions to original source documents such as invoices, accounts-payable checks, tenant files, and work orders. We compared these documents to the general ledger for accuracy, performed other tests of electronic data, and made relevant inquiries. We also reviewed the rent rolls, expense list, and inventory list for duplicates and missing fields. We determined that the data from the system were sufficiently reliable for the purposes of our audit.

We used nonstatistical sampling and did not project the results of our audit tests to the entire population.

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## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### 1. Deficiencies in the Wellesley Housing Authority's inventory process resulted in unaccounted-for assets.

The Authority did not maintain a complete and up-to-date list of its inventory of refrigerators and ranges, conduct an annual inventory of these assets, or ensure that all information on its inventory list regarding these assets was complete and accurate. The lack of a complete and up-to-date inventory list creates an undue risk of undetected loss, theft, or misuse and could result in inaccurate asset values in the Authority's accounting records.

According to the Authority's maintenance supervisor, the inventory process begins when the Authority purchases a new refrigerator or range. The item's intended final location is documented on the purchase order. The vendor delivers the appliance to the Authority's storage location along with the packing slip and invoice. If the purchase order has a unit address on it, a work order is generated. The item is prepared for installation, tagged with an asset number, and then installed at the unit address. The asset number and serial number are recorded on the work order. The work order is then brought to the administrative office, where the information on the work order is entered in the inventory list. If the purchase order does not have a specific unit address listed, the item is kept in the storage location until it is needed in a unit. The Authority does not generate a work order or apply an asset tag number until the item is ready to be installed in a unit. We inspected the small quantity of appliances in storage at an Authority storage location at Weston Road.

We requested all purchase orders and work orders for the installation of appliances by the Authority during our audit period; however, of the 85 refrigerators and 62 ranges that were purchased during the audit period and had unit numbers on their purchase orders, we could only identify 37 work orders for refrigerator installations and 20 for range installations. The Authority could not show us work orders documenting where the remaining 48 refrigerators and 42 ranges were located. Further, based on our review of the work orders for appliances that had been installed in units, we found the following problems:

- Eighteen work orders for the installation of refrigerators did not have asset tag numbers listed and therefore could not be traced to the inventory list.

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- Twelve work orders for the installation of refrigerators had asset tag numbers listed, but the asset numbers did not match the inventory list.
  - Only 7 of the 37 work orders for refrigerators had asset tag numbers that matched the inventory list.
  - Seventeen work orders for the installation of ranges did not have asset tag numbers listed and therefore could not be traced to the inventory list.
  - Two work orders for the installation of ranges had asset tag numbers listed, but the asset numbers did not match the inventory list.
  - Only 1 of 20 work orders for ranges had an asset tag number that matched the inventory list.

Additionally, to determine whether the Authority had installed the new refrigerators and ranges in the designated housing units, we selected a judgmental sample of 30 purchase orders (15 for refrigerators and 15 for ranges) that identified a unit as the designated location. For each purchase order, we also reviewed the corresponding invoice and documented the serial number for the specific refrigerator or range. We then went to each identified unit and inspected the refrigerator or range to determine whether the serial number on the appliance matched the one on the invoice. Of the 30, only 2 refrigerators and 2 ranges had serial numbers that matched their invoices.

Finally, as part of our testing of the inventory list of refrigerators and ranges, from the rent rolls as of December 31, 2016, we selected a nonstatistical sample of 40 housing units from a population of 231. From the 40, we selected 20 units and compared the inventory list of ranges and refrigerators to the appliances in each unit; we then compared an inventory of the appliances in the other 20 units to the inventory list to check for accuracy. We identified the following problems:

- Our comparison of the inventory list to housing units found 11 instances where the asset tag number on the list did not match the one on the refrigerator and 11 instances where the asset tag number on the list did not match the one on the range.
- Our comparison of housing units to the inventory list found 10 instances where the asset tag number on the refrigerator did not match the one on the list and 9 instances where the asset tag number on the range did not match the one on the list.
- The inventory list provided by the Authority only accounted for 222 of the 235 units under its management. In addition, 15 units on the list were missing asset tag numbers for refrigerators, ranges, or both.
- The inventory list did not have the costs or the purchase dates of refrigerators and ranges.

- The Authority could not provide information about or evidence of when the inventory list was last updated.

## Authoritative Guidance

Section 8 of the Department of Housing and Community Development (DHCD) Accounting Manual states,

*The management of each [Local Housing Authority, or LHA] is responsible for developing and implementing a system of internal control which will:*

- *Safeguard the assets of the organization. . . .*

*It is important that each Local Housing Authority observe the following fundamental requirements in establishing an effective system of internal control:*

- *An organizational plan which provides for definite placement of responsibility and for specific lines of responsibility. . .*
- *The use of forms, documents, and procedures which facilitate control.*

In addition, Section 15(d) of the manual states,

*DHCD requires that a formal system for the inventory of furniture and equipment be established by program by all LHAs. The inventory will be composed of two parts, [including] a non capital / control inventory for all items expensed at purchase but costing \$1,000 or more (refrigerators and stoves are to be included regardless of price). . . .*

1. *A physical inventory of all Furniture and Non-expendable Equipment must be taken and an inventory list maintained each year.*
2. *Physical inventory results must be compared to equipment record and any differences and discrepancies will be reviewed by the LHA for possible adjustments.*

Finally, the Wellesley Housing Authority Inventory and Equipment Policy states, "The Inventory Master List will include the . . . Date Purchased . . . and Cost."

## Reasons for Noncompliance

Officials of the Authority stated that no annual inventory had been conducted; however, based on our audit findings, the Authority has instituted new procedures to ensure that all appliances are properly accounted for.

## Recommendations

1. The Authority should update its written policies and procedures governing all aspects of its inventory process as well as monitoring controls to ensure that this process is adhered to.

2. The Authority should conduct an inventory of all ranges and refrigerators, reconcile it to the current inventory list, and investigate any discrepancies.

### **Auditee's Response**

*The Maintenance Supervisor spent a good deal of time reviewing his procedure for ordering and receiving appliances. A system had been in place that we believe was not followed by two (2) of our former employees. Per the recommendation of your office, an up to date inventory has been performed and recorded. We also produced a listing of those appliances that were removed from units and taken to the recycling facility in Wellesley.*

*In addition, our Fee Accountant was able to successfully verify all expenditures and tie them to invoices. Finally, I will take up with the Board of Commissioners the codification of our inventory procedure as a formal policy.*

### **Auditor's Reply**

The Authority did provide the Office of the State Auditor (OSA) with what it said were updated inventory lists for its boilers / water heaters and appliances with its response to this report. However, since these lists were prepared by the Authority and provided to OSA after we completed our audit fieldwork, we could not verify their accuracy. With its response, the Authority also provided a list of items that it sent to the local recycling center, but the list did not specifically identify the types of item recycled or which Authority unit each item came from.

The Authority does have an inventory policy that recognizes that the inventory should be accounted for annually, but Authority officials told us that annual inventories were not being conducted. Further, in OSA's opinion, the Authority's inventory policy is deficient and should be updated to identify the staff member/s who will be responsible for monitoring the inventory process and performing year-end reconciliations of inventory records. This policy should also describe in detail how the use of work orders is integrated into the inventory process when appliances are placed in units as well as the process for disposing of surplus items.

## **2. The Wellesley Housing Authority did not properly administer the procurement of \$113,206 of appliances and water heaters.**

During the audit period, the Wellesley Housing Authority purchased refrigerators, ranges, and water heaters totaling \$113,206 without using a competitive procurement process. As a result, it may have spent more than necessary for these items.

The Authority budgeted and spent the following amounts for these items from January 1, 2014 through December 31, 2016.

	2014		2015		2016		Total	
	Budgeted	Spent	Budgeted	Spent	Budgeted	Spent	Budgeted	Spent
Refrigerators	\$ 9,000	\$25,000	\$ 10,000	\$ 12,024	\$ 10,000	\$ 10,227	\$ 29,000	\$ 47,251
Ranges	6,000	9,698	6,000	9,779	6,000	8,993	18,000	28,470
Water Heaters	20,000	31,213	20,000	6,272	20,000	0	60,000	37,485
<b>Total</b>	<u>\$ 35,000</u>	<u>\$65,911</u>	<u>\$ 36,000</u>	<u>\$ 28,075</u>	<u>\$ 36,000</u>	<u>\$ 19,220</u>	<u>\$ 107,000</u>	<u>\$113,206</u>

Even though the budgeted amounts shown above indicate that the Authority anticipated spending a substantial amount annually to purchase appliances and water heaters, it routinely used a local vendor to procure them noncompetitively.

### Authoritative Guidance

Effective November 7, 2016,<sup>2</sup> Section 4(a) of Chapter 30B of the Massachusetts General Laws, which applies to local government agencies such as housing authorities, states,

*For the procurement of a supply or service in the amount of \$10,000 or greater, but less than \$50,000, a procurement officer shall seek written quotations from no fewer than 3 persons customarily providing the supply or service.*

Section 4(c) of Chapter 30B of the General Laws, which applies to local government agencies such as housing authorities, states, “A procurement in the amount of less than \$10,000 shall be obtained through the exercise of sound business practices.” The term “sound business practices” is defined in Section 2 of Chapter 30B as “ensuring the receipt of favorable prices by periodically soliciting price lists or quotes.”

Since the Authority, through its budget process, anticipated purchasing refrigerators, ranges, and water heaters in amounts that would have fallen within the purchasing ranges in Chapter 30B, it could have availed itself of the competitive processes established within the statute.

### Reasons for Noncompliance

The Authority had not updated its formal written procurement policies and procedures, which require it to use competitive procurement, as far as possible, when purchasing goods and services.

2. Section 4(a) was amended during our audit period. For the period July 1, 2013 through July 1, 2014, the range in the law was not \$10,000–\$50,000 but rather \$10,000–\$25,000. For the period July 1, 2014 through November 7, 2016, the range was not \$10,000–\$50,000, but rather \$10,000–\$35,000.



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## Recommendation

The Authority should update its formal written procurement policies and procedures, which require it to use competitive procurement, as far as possible, for goods and services, and should ensure that these policies and procedures are adhered to.

## Auditee's Response

*We respectfully disagree with this finding for a couple of reasons. In January of 2016, [the] Facilities and Modernization Director . . . undertook an exercise to obtain quotes from various vendors for refrigerator purchases. He successfully obtained quotes from Sears (\$529.99 per unit), Frigidaire (\$579.00 per unit) and Jarvis Appliances (\$478.00 per unit). The quote offered by Jarvis Appliance was the lowest we obtained. Jarvis is a local appliance dealer and the Housing Authority has done business with them for some time now due to their low prices and very good customer service. Additionally, we are not certain on a year to year basis how many refrigerators, stoves, or water heaters we require as it varies considerably. WHA does not have adequate storage space to carry out a bulk order. We need to do these orders on an as needed basis. With respect to water heaters, these get replaced usually on an emergency basis. It simply is not practical to perform procurement in emergency situations; and indeed public entities are allowed to respond to emergency situations to safeguard resident or public safety or well being without adherence to the procurement policy.*

*The Wellesley Housing Authority already has a "formal, written procurement policy" that is followed.*

## Auditor's Reply

With its written response to this draft report, the Authority did provide a list of quotes it said it had solicited and received for refrigerators as of January 2016. However, it did not provide any documentation of quotes for appliances and/or water heaters it may have obtained before January 2016 and therefore could not substantiate that it had used a competitive procurement process for all the refrigerators, ranges, and water heaters it purchased during our audit period.

Although the Authority asserts that it is not certain from year to year how many refrigerators, stoves, or water heaters it will require, as noted above, it prepares an annual budget that identifies a specific amount of money it has for purchasing these items. In its budgets during our audit period, the Authority anticipated significant appliance and water heater expenses during each fiscal year. The Authority exceeded its budgeted estimates for appliances every year and for water heaters one year. From the proposed budgets, the Authority had a reasonable estimate of items that might be purchased each year; thus it could have obtained quotes to ensure that it received the most economical price. It could have

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obtained quotes for items as needed, removing the need to store any items or purchase on an emergency basis.

The Authority does have a procurement policy, but it has not been updated to address changes in the Commonwealth's procurement laws.

### **3. The Authority did not maintain housing inspection reports.**

During our audit period, the Authority did not have DHCD-required annual inspection reports on file for several housing units. When units are not regularly inspected, there is inadequate assurance that they conform to state and local minimum standards for safe and sanitary housing.

Specifically, we sampled the same 25 units for each fiscal year of the audit period and found the following:

- For fiscal year 2014, 18 units did not have inspection reports on file.
- For fiscal year 2015, 10 units did not have inspection reports on file.
- For fiscal year 2016, 5 units did not have inspection reports on file.

### **Authoritative Guidance**

Chapter 3 of DHCD's Property Maintenance Guide states,

*To insure comprehensive accountability and efficient maintenance work scheduling, every inspection should result in a written report that documents, by specific location, the condition of every component . . . inspected. . . .*

*At least once a year every LHA dwelling unit should be systematically observed by carefully oriented inspectors.*

### **Reasons for Noncompliance**

The Authority has not established any written policies and procedures for unit inspections. In addition, the Authority has undergone significant employee turnover that, according to Authority officials, has made it unable to perform timely inspections of all of its units.

### **Recommendations**

1. The Authority should establish policies and procedures for its unit inspection process.

2. The Authority should establish monitoring controls over the inspection process to ensure that its staff consistently adheres to the policies and procedures.
3. The Authority should retain copies of all inspection reports in its files.

### **Auditee's Response**

*In 2014, there were 18 missing inspection reports, in 2015 there were 10 missing inspection reports, and in 2016 there were 5 missing inspection reports. The WHA is trending in the right direction here. Units must be inspected each year and in a number of instances where they were not done, any number of reasons may have played a role. In 2014 heading into 2015 the Greater Boston area was inundated with copious amounts of snow and ice; which necessitated the maintenance staff perform snow removal duties. In certain instances, residents will attempt to avoid the annual inspection for whatever reason (illegal occupants, hoarding, poor housekeeping etc.). The WHA encountered unanticipated employee turnover, which at times made it difficult to follow up on the inspections that were missed. The staff at the Housing Authority always tries to accommodate residents as much as possible; and I am happy to report that we obtained 100% resident inspections for 2017. Unit inspections are covered as part of resident's lease. The leasing staff has been educated that all inspection reports must be maintained in the resident's file.*

### **Auditor's Reply**

Based on the Authority's comments, it has taken some measures to address our concerns in this area. However, we again recommend that it establish a policy that details the inspection process, the employee/s responsible for the inspections, and the management oversight of the process. Inspections are key to identifying conditions in each housing unit and can be used for prioritizing maintenance work, monitoring tenant activities, and identifying future equipment needs. The policy should also ensure that unit inspections are completed annually and all inspection reports are maintained in the tenant's folder.

### **4. The Authority did not properly administer its rent redetermination process.**

The Authority did not properly conduct rent redeterminations for some of its tenants during fiscal year 2016. By not performing the required rent redeterminations or obtaining required information from its tenants, the Authority creates a higher-than-acceptable risk of overcharging or undercharging tenants for their housing or of providing housing to individuals or families whose incomes may make them ineligible.

Specifically, we judgmentally selected a sample of 25 tenants and found that rent redeterminations had not been performed for 5 of them. In addition, several other tenants in our sample did not have lease addendums, supporting documentation of deductions, or supporting documentation of income in their files. Specifically, we noted the following deficiencies:

- Six rent redeterminations were missing supporting documentation for both income and deductions.
- Five tenant files did not have documentation to support income.
- One tenant's file did not have documentation to verify the tenant's eligibility for medical deductions taken.
- Two tenants' files did not have documentation to verify their eligibility for multiple deductions taken, including deductions for family housing, medical expenses, and a dependent child.
- Three tenants had not signed lease addendums extending the rental periods for a year.

In addition, six tenants living in housing for elderly tenants were allowed a \$400 deduction from their income that is only supposed to be provided to tenants of family housing.

### **Authoritative Guidance**

DHCD regulations state, in Section 6.04 of Title 760 of the Code of Massachusetts Regulations (CMR),

*(4) Annual Re-determination*

*(a) The Re-determination Date. The LHA shall re-determine each tenant's monthly rent once annually to be effective on a specific re-determination date which shall be the first day of a month. . . .*

*(6) Verification. The tenant shall provide and authorize reasonable verification of information regarding income, exclusions from income and deductions (whether at initial determination or at any re-determination) in order to insure reliability of the information.*

In addition, 760 CMR 6.06(5)(q) requires the tenant "to sign a new lease or lease addendum whenever necessary to reflect a re-determined rent, a change in household size, or change(s) in terms and conditions of tenancy."

Finally, 760 CMR 6.05(4) lists the following deductions:

*(a) \$400 for a household living in family housing in which the tenant is an elderly person of low income or a handicapped person of low income provided that the household is not overhoused.*

*(b) \$300 for each unemancipated minor household member (younger than 18 years old). . . .*

*(c) Payments for necessary medical expenses (including co-payment amounts) which are not covered by insurance or otherwise reimbursed, provided that such expenses are in excess of 3% of annual gross household income and are paid by household members. Payments for medical health insurance are considered medical expenses.*

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## Reasons for Noncompliance

The Authority has not established policies and procedures for its rent redetermination process to ensure that it complies with DHCD requirements.

## Recommendation

The Authority should develop and implement policies and procedures for its rent redetermination process that are consistent with DHCD regulations and should implement monitoring controls to ensure that its staff consistently adheres to these requirements.

## Auditee's Response

*The WHA performs redetermination processes each year per DHCD regulations and guidance. Our property manager is very diligent about making certain that all recertifications are completed and that adequate backup exists to justify the rent redetermination. As the auditors are aware, we underwent a purge of files during the latter part of 2016 that was done by a now former employee in which a number of pieces of income and expense verifications were removed. Our staff has stabilized at this point and we look to the future with optimism that all documentation will always be in the files.*

*The WHA has retained the services of Execu-Tech Consultants to undertake a comprehensive file review to identify any remaining issues in order to position us for 2018 and beyond. The \$400 family credit to the elderly residents was given out in error and those adjustments have been made.*

## Auditor's Reply

Based on its comments, the Authority has taken some measures to address our concerns in this area. However, we again recommend that the Authority establish a policy to ensure that all rent redeterminations are completed annually. The Authority should also monitor these redeterminations by selecting a sample annually to review to verify that all documentation is present and all adjustments are made correctly.

## **5. The Authority did not maintain its waiting list information or obtain all the required information from housing applicants in DHCD's prescribed manner.**

The Authority did not maintain permanent, hardcopy program waiting list ledgers. It maintained this information electronically, but it did not seek and obtain a DHCD waiver of the requirement of hardcopy ledgers. Further, the Authority did not always obtain all required information from applicants. If DHCD's

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administrative requirements are not followed, tenants could be incorrectly offered housing ahead of other eligible tenants who should have preceded them.

Specifically, in our review of the 10 tenants who had most recently moved in, we noted the following deficiencies with the application process:

- Three applications were not date- or time-stamped.
- Three applicants were provided with emergency housing, but emergency applications had not been completed.
- Three applicants did not have landlord references.
- One application did not have a control number (a unique number assigned to identify an application).
- One offer for housing was accepted more than seven days after the written offer of the unit.

### **Authoritative Guidance**

According to 760 CMR 5.16(2), "The LHA shall maintain permanent handwritten ledgers including a master file ledger and waiting list ledgers."

In addition, 760 CMR 5.05(2) states, "Each application form received by the LHA shall be date and time stamped, and the applicant promptly provided with a . . . control number."

DHCD's Standard Application for State-Aided Public Housing states,

*If you have selected one of the . . . emergency categories [on the application] . . . you must complete an EMERGENCY APPLICATION in addition to this Standard Application. All emergency applications must be accompanied by third party written documentation.*

Further, 760 CMR 5.12(2) states,

*The LHA shall require an applicant to provide the names and current addresses of all landlords (or housing providers) for applicant and household members during the period five years prior to application through the date of the final determination.*

Finally, 760 CMR 5.10(4)(a) states, "An applicant offered a unit must accept the offer within seven days of the date of the written offer."

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## Reasons for Noncompliance

Authority management officials stated that they were not aware they were required to request a DHCD waiver of the requirement of hardcopy waiting lists. They could not explain the other noted deficiencies because the housing application process was the responsibility of a former employee. We did note that the Authority did not have policies, procedures, or monitoring controls in place to ensure that its staff obtained all required information from applicants.

## Recommendations

1. Until it obtains a waiver from DHCD, the Authority should maintain hardcopy program waiting list ledgers.
2. The Authority should ensure that housing applications are date- and time-stamped; that they include emergency applications when applicable, as well as control numbers and landlord references; and that written offers for housing are accepted within the prescribed timeframe.
3. The Authority should establish policies, procedures, and monitoring controls over the application process to ensure that all information required during the process is obtained according to DHCD requirements.
4. The Authority should assign an employee the responsibility of accepting applications and ensuring that each application complies with DHCD regulations.

## Auditee's Response

*Addressing the specific areas of concern:*

- *Leasing staff have been reeducated as to the requirement of date and time stamping each application. This oversight, however, had no bearing on any applicant's placement on the waiting list.*
- *Despite the fact that an emergency application was not completed in a few instances, emergency status was duly noted and all preferences provided as per the regulations. As with the prior finding, the bureaucratic fact that there wasn't a second application completed had no bearing on the placement on the wait list.*
- *Landlord references are at times quite difficult to obtain. In the majority of cases, we are able to procure the landlord reference checks without much problem. There are situations that arise where an applicant provides a listing of their prior landlords, and then we discover that these individuals no longer own the property, their mailing addresses have changed, or we simply cannot contact them. I am sometimes called upon to make a judgment on behalf of an applicant who has done everything correctly only to potentially have the whole process grind to a halt or end because of the landlord check. I am happy to report that we adhere to the requirement of ordering landlord references, but I will not necessarily deny someone housing because we cannot locate prior landlords.*

- *The Wellesley Housing Authority maintains a hand written master ledger. . . .*
- *Each of our developments possesses unique characteristics and our applicants are equally diverse and varied. In the case of an offer for housing being accepted more than seven (7) days after the written offer, extenuating circumstances may have been present. Some of our developments have limited or no available parking and we are only able to fill the units with those folks who do not drive; other units (particularly elderly units) are difficult to fill if they are on the second floor due to mobility issues. Although we endeavor to adhere to the "7 day rule," in specific hard to fill circumstances, I will grant leeway.*

## **Auditor's Reply**

Based on its response, the Authority is taking some measures to address our concerns in this area. However, we again recommend that the Authority establish a policy documenting the application process and the administrative oversight put in place to ensure that all tenant applications are processed in accordance with DHCD regulations. The Authority should also assign an employee to receive and review tenant applications to ensure that they comply with DHCD regulations. The application process must be transparent. The use of date- and time-stamping establishes a clear order in which tenants should be entered on the Authority's waiting list. All tenant applications should be clearly marked when they are received and a control number is issued.

Applicants with emergency situations are required to complete emergency applications along with standard applications and provide documentation verifying their homeless status. The emergency application gives the applicant information and guidance that can help with declaring the applicant's emergency status and identifying documentation necessary to prove the applicant's homeless status. This documentation, provided with the emergency application, assists the Authority in determining the applicant's placement on the waiting list.

Landlord references are important in the decision of whether to extend an offer for housing. A reference may provide an indication of an applicant's previous behavior. When landlord references are difficult to obtain, the Authority should document in the applicant's file the efforts made to obtain the references and the decisions made regarding the applicant if references are not obtained.

The Authority maintains a handwritten master ledger, but DHCD requires that program waiting lists be kept in handwritten ledgers unless DHCD grants a waiver and allows for an electronic waiting list. The Authority currently maintains an electronic waiting list ledger and did not provide us with a waiver



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granted by DHCD. Requesting a waiver from DHCD provides an opportunity to evaluate the electronic process to ensure that it meets DHCD's specifications.

Although applicants may have a difficult decision regarding housing, the Authority should strive to meet the "seven-day rule" to ensure that housing units are filled in a timely manner and not create extended vacancies. When applicants are given additional time to make a decision, the Authority should document in their files the reasons for the extensions.

## **6. The Authority's board of commissioners did not properly administer its management agreement with the Needham Housing Authority.**

The Authority's board of commissioners did not submit its management agreement with the Needham Housing Authority to DHCD for approval. Without DHCD review and approval of the management agreement, the Authority cannot be sure that the contract terms are acceptable to DHCD and that the services purchased will allow the Authority to operate at a satisfactory level based on the staffing services in the agreement.

Before the audit period, the Authority's board of commissioners entered into a management agreement whereby the executive director of the Needham Housing Authority would act as the executive director of the Wellesley Housing Authority, managing the latter's day-to-day operations. Senior management officials at DHCD stated that they had not approved the agreement and did not have it on file. The management agreement was approved by the Authority's board of commissioners at its May 23, 2013 meeting. The agreement listed its effective duration as 24 months, which it defined as January 1, 2013–December 31, 2015.<sup>3</sup> The terms of the agreement required the Authority to pay the Needham Housing Authority \$132,000 annually, payable in monthly installments, as reflected in its annual budget.

On November 28, 2016, DHCD sent a memo to the chair of the Wellesley Housing Authority board of commissioners, requesting that the Authority not commit to a formal extension of the agreement. The memo stated that DHCD had several concerns that it would like to discuss with the board. However, the Authority continues to operate under the provisions of the prior management agreement and continues to pay the Needham Housing Authority monthly fees for the operations of the Wellesley Housing Authority.

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3. The agreement states that the duration is 24 months. However, it also states that it shall be in effect from January 1, 2013 through December 31, 2015. The current executive director stated that the agreement was for 36 months and that these dates were the correct ones.

## Authoritative Guidance

The Wellesley Housing Authority's contract for financial assistance with DHCD states,

*The Authority will not, without the prior approval of the Commissioner . . . award or enter into any contract for utilities or equipment, or any other contract during the management or operation of the Project by the Authority.*

## Reasons for Noncompliance

The management agreement was signed June 27, 2013 by a current board member who was chair when the board of commissioners approved it. She stated that she assumed it was approved when DHCD approved the annual budget.

## Recommendation

Before awarding or entering into a management agreement, the Authority should submit it to DHCD for review and approval.

## Auditee's Response

*The Wellesley Housing Authority has been overseen by the Needham Housing Authority since 2004. There have been four (4) three year agreements that have been signed by both authorities. I cannot speak to why the last signed agreement in 2013 was not sent in to DHCD for approval; perhaps the respective boards at that time were not aware that had to be done. The agreement that was signed back in 2013 was the exact same agreement that had been signed previously. Since there were no changes to the agreement, there was nothing for DHCD to review as they had apparently approved prior agreements.*

*Additionally, DHCD had approved all budget submissions for both LHAs and never questioned any yearend financial data. This to me constitutes de facto acknowledgment of the existence of and approval of the management agreement.*

*It is accurate that DHCD requested that the WHA not commit to extending the agreement in a memo. . . . The Wellesley Housing Authority as well as the Needham Housing Authority have been operating under approved extensions of the prior agreement, which DHCD acquiesced to. It would have been very disruptive and highly irresponsible for one or both sides to simply terminate the agreement without a well thought out plan of action going forward.*

## Auditor's Reply

The Authority should send its management agreement to DHCD for review each time it is to be renewed to ensure that DHCD is aware of the duties and responsibilities of the parties outlined in the agreement. The annual budget, although it may state the total cost of the contract, does not provide any information about the contract.