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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
SAUGUS HOUSING AUTHORITY
JULY 1, 2005 TO JUNE 30, 2008**

**OFFICIAL AUDIT
REPORT
JANUARY 12, 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 Saugus Housing Authority for the period July 1, 2005 to June 30, 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. We also conducted a follow-up review of the Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0772-3A2).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 36-month period ended June 30, 2008, 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 (No. 2006-0772-3A2) of the Saugus Housing Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed several instances of noncompliance with Chapter II of the State Sanitary Code and the Department of Housing and Community Development's (DHCD) Property Maintenance Guide. Specifically, the previous audit disclosed that the Authority a) was noncompliant with the State Sanitary Code, b) did not receive funding for modernization requests from DHCD, c) did not establish an official written property maintenance plan, and d) did not communicate with DHCD to determine that the correct amount of operating subsidies due was recorded in its financial statements. Our follow-up review disclosed that the Authority has taken action to address the prior Audit Results, as discussed below.

a. Results of Inspections - 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 disclosed nine instances of noncompliance with the State Sanitary Code, including water leaks, a missing elevator inspection certificate, exposed wiring, an exterior brick wall in need of re-pointing, and a hole in the laundry room ceiling. Our follow-up review determined that the Authority has corrected these instances of noncompliance.

b. Modernization Initiatives Remain Unfunded

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Our prior audit found that although the Authority had applied to DHCD for funding for capital modernization projects for its state-aided properties, the requests were not funded by DHCD during the audit period. Our follow-up review determined that the Authority's requests have remained unfunded.

c. Official Written Property Maintenance Plan Established **4**

Our prior audit found that the Authority did not incorporate DHCD's Property Maintenance Guide into its policies and procedures. Specifically we noted that the Authority did not have an official written preventive maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. Our follow-up review determined that the Authority has implemented a written preventive maintenance program that incorporates DHCD's Property Maintenance Guide into its policies and procedures.

d. Status of Operating Subsidies Earned, Received, and Outstanding **4**

Our prior audit found that the Authority's operating subsidy records indicated that it was owed \$1,923 as of June 30, 2005, whereas the subsidy list provided to us by DHCD indicated that it owed the Authority \$7,459. It was further noted that the Authority received \$8,002 from DHCD in September 2005, or \$6,079 more than the \$1,923 reported in the Authority's records. DHCD subsequently notified the Authority that there had been a \$6,159 overpayment in its operating subsidy for fiscal year 2005, and this amount was remitted to DHCD on October 17, 2005. Our follow-up review determined that the Authority received its fiscal years 2006, 2007, and 2008 operating subsidies from DHCD in a timely manner and the correct amount of operating subsidies due was recorded in its financial statements.

INTRODUCTION

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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 that 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. 2006-0772-3A2).

Based on our review, we have concluded that, except for the issues discussed in the Audit Results section of this report, during the 36-month period ended June 30, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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a. Results of Inspections - 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 noted nine instances of noncompliance with Chapter II of the State Sanitary Code, including water leaks, a missing elevator inspection certificate, exposed wiring, an exterior brick wall in need of re-pointing, and a hole in the laundry room ceiling. Our follow-up review determined that the Authority has corrected these instances of noncompliance with Chapter II of the State Sanitary Code.

b. Modernization Initiatives Remain Unfunded

Our prior audit found that although the Authority had applied to DHCD for funding for capital modernization projects for its state-aided properties, the requests were not funded by DHCD during the audit period. Our follow-up review revealed that these requests have remained unfunded.

Deferring or denying the modernization funding requested 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 Authority's modernization needs into future years will only 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 for funding for its capital modernization projects.

c. Official Written Property Maintenance Plan Established

Our prior audit found that the Authority did not incorporate DHCD's Property Maintenance Guide into its policies and procedures. Specifically, we noted that and the Authority did not have an official written preventive maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. Our follow-up review determined that the Authority has implemented a written preventive maintenance program that incorporates DHCD's Property Maintenance Guide into its policies and procedures.

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