



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. 2009-0788-3A

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

**OFFICIAL AUDIT
REPORT
MAY 13, 2009**

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INTRODUCTION

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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 Stoneham 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. 2006-0788-3A).

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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1. STATUS OF PRIOR AUDIT RESULTS

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Our prior audit of the Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that: (a) the Authority did not conduct annual dwelling unit inspections as required by the Department of Housing and Community Development's (DHCD) Property Maintenance Guide, (b) 26 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing developments, (c) the Authority did not reoccupy vacant units in a timely manner, (d) the Authority did not receive funding for modernization requests from DHCD, and (e) the Authority did not receive reimbursement from DHCD for funds borrowed for its modernization needs. Our follow-up review revealed that the Authority has taken some action to remedy most of these issues, as discussed below.

a. Required Unit Inspections Not Conducted Annually

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DHCD's Property Maintenance Guide, Chapter 3 (F), requires that inspections of dwelling units be conducted annually and upon each vacancy. Our prior audit found that the Authority did not conduct annual inspections of seven of the 14 units inspected during the audit. Our follow-up review determined that this deficiency still exists, as the Authority did not conduct annual inspections of any of the 20 units whose tenant files we reviewed. In fact, no annual, pre-occupancy, or termination inspection reports were found in any of the files.

b. Results of Inspections – Partial 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 26 instances of noncompliance with Chapter II of the State Sanitary Code, including mold on walls

and ceilings, cracked walls, peeling paint, and falling ceilings. Our follow-up review determined that although 13 instances of noncompliance were corrected, and 13 instances remained unresolved.

c. Vacant Units Not Reoccupied within DHCD Guidelines **5**

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. However, our prior audit found that the Authority's average turnaround time for reoccupying vacant units was 97 days. Moreover, we found that there were over 30 vacant family and elderly housing units and more than 300 applicants on the Authority's waiting list at that time. Our follow-up review found that, although the number of vacant units decreased to 11 and the number of applicants on the Authority's waiting list decreased to 239, the Authority's average turnaround time for reoccupying vacant units increased to 127 days.

d. Partial Funding of Modernization Initiatives **5**

Our prior audit found that the Authority applied to DHCD for funding for capital modernization projects for its state-aided properties, but these requests were not funded by DHCD during the audit period. Our follow-up review indicated that DHCD has funded the request to replace boilers; however, the request for rewiring remains unfunded.

e. Funds Borrowed for Modernization Needs **6**

Our prior audit found that the Authority borrowed \$792,092 to fund a DHCD-approved Energy Performance Contract in 2001 for its 667-1 Elderly development, located at Washington Avenue. DHCD had not reimbursed the Authority for the funds borrowed, which created a severe cash flow problem for the Authority. Our follow-up review determined that DHCD has agreed to reimburse the Authority for the funds it borrowed by permitting it to include principal and interest as an annual budget line item.

2. TENANT PET DEPOSITS IMPROPERLY RETAINED **7**

We found that the Authority did not deposit tenant pet deposits it received in an interest-bearing bank account separate from its operating account and that interest earned on each tenant's pet deposit was not recorded separately. Three tenants who moved and the estates of five tenants who passed away did not receive a refund of their pet deposits and the interest earned thereon. Moreover, there was no evidence that the Authority was entitled to retain these deposits for repairs due to damages caused by the tenants' pets. In addition, our review of the Authority's pet deposit subsidiary listing determined that the correct pet deposit balance as of June 30, 2008 was \$2,150 (including a total of \$845 in unreturned funds to moved/deceased tenants). However, the Authority's June 30, 2008 Balance Sheet and General Ledger balance was \$2,935, resulting in an unaccounted-for variance of \$785.

3. LEASE ADDENDUMS NOT SIGNED BY TENANTS

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The Authority did not ensure that its continuing occupancy tenants signed lease addendums, as required by 760 Code of Massachusetts Regulations. Our review of 10 continuing occupancy tenant files revealed that three tenants had not signed lease addendums.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Stoneham 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.

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 vendors and other external parties 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 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. 2006-0788-3A).

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. In addition, our follow-up review revealed that, although the Authority had taken action to address some of the prior audit issues, others remained unresolved.

AUDIT RESULTS

1. STATUS OF PRIOR AUDIT RESULTS

Our prior audit (No. 2006-0788-3A) of the Stoneham Housing Authority, which covered the period July 1, 2003 to June 30, 2005, disclosed that (a) the Authority did not conduct annual dwelling unit inspections as required by the Department of Housing and Community Development's (DHCD) Property Maintenance Guide, (b) 26 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing developments, (c) the Authority did not reoccupy vacant units in a timely manner, (d) the Authority did not receive funding for modernization requests from DHCD, and (e) the Authority did not receive reimbursement from DHCD for funds borrowed for its modernization needs. Our follow-up review revealed that, although the Authority has taken action to address some of the prior audit issues, others remained unresolved, as discussed below.

a. Required Unit Inspections Not Conducted Annually

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. In addition, Section XIV of the standard lease used for state-aided units requires that pre-occupancy, periodic (i.e., annually per the Property Maintenance Guide), and termination inspections must be conducted. For all these types of inspections, the lease further states that the tenant is to receive a "written copy" or "statement of condition" for the inspection that was conducted. During our prior audit, we inspected 14 units from the Authority's active housing stock, which totaled 281 dwelling units, and found that, although the Authority inspected all 14 units in fiscal years 2003 and 2004, it inspected only seven of the 14 units in fiscal year 2005. Our follow-up review revealed that during fiscal years 2007 and 2008, the Authority did not inspect any of the 20 units whose tenant files we reviewed.

DHCD requires authorities to inspect all state-aided units annually to ensure that they conform to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. The Authority indicated that although it strives to conduct the required inspections of its state-aided units, all units were not inspected during fiscal years 2007 and 2008

due to staffing constraints. Nevertheless, if annual inspections are not performed, the Authority cannot ensure that it is providing safe, decent, and sanitary housing for its tenants.

Recommendation

The Authority should ensure that annual inspections of its housing units are conducted in accordance with DHCD policies and guidelines so that it can provide safe, decent, and sanitary housing for its tenants. If hindered by staffing constraints, the Authority should consider the feasibility of hiring an outside firm to conduct such inspections.

b. Results of Inspections – Compliance with State Sanitary Code

As previously mentioned, 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 26 instances of noncompliance with Chapter II of the State Sanitary Code, including mold on walls and ceilings, cracked walls, peeling paint, and falling ceilings. Our follow-up review determined that although 13 instances of noncompliance were corrected, and 13 instances remained unresolved. The Authority indicated that, because a maintenance employee has been absent from work constantly due to illness, it has had limited staffing available to correct the remaining issues of noncompliance. In addition, the Executive Director indicated that the work remaining to correct the instances of noncompliance at the 200-C Family Program developments has been postponed until modernization work plans No. 1025 and No. 1026 are fully implemented. Work plan No. 1025 allocates funds for upgrading the kitchens and bathrooms; upgrading the heating, hot water, and ventilation systems; and constructing four new accessible units for the 200-1 development. Construction is expected to begin in 2010. Work plan No. 1026 allocates funds for upgrading the kitchens and bathrooms and for upgrading the heating, hot water, and ventilation systems for the 200-2 development. Although continuing progress is contingent upon full funding from DHCD, the Authority indicated that it anticipates that construction will also commence in 2010.

Recommendation

The Authority should monitor the work plan progress and funding to correct the remaining issues. DHCD, in turn, should obtain and provide funding for the work plans noted and so that the remaining issues are resolved in a timely manner.

c. 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. However, our prior audit found that the Authority's average turnaround time for reoccupying vacant units was 97 days. Moreover, we found that there were over 30 vacant family and elderly housing units and more than 300 applicants on the Authority's waiting list at that time. Our follow-up review revealed that the Authority's average turnaround time increased to 127 days. In addition, as of June 30, 2008, there were 11 vacant family and elderly housing units and 239 applicants on the Authority's waiting list. By not ensuring that vacant units are reoccupied within DHCD's guidelines, the Authority may have lost the opportunity to earn potential rental income net of maintenance and repair costs, and may have lost the opportunity to provide needy citizens with subsidized housing.

The Authority's Executive Director and its Director of Maintenance indicated that the reasons for delays in filling vacant units included the following: the 667-1 units are too small; second-floor units (667-2 and 667-3) and second- and third-floors (667-4) are difficult for the elderly and the handicapped to access; the 667-1, 667-2, and 667-3 units are not wheelchair accessible and the 667-4 units are only wheelchair accessible on the first floor; the 200-1 and 200-2 units are not wheelchair accessible, since all bedrooms and bathrooms are on the second floor; and significant time and manpower are required to get the units ready for reoccupancy after being vacated. In addition, the Authority indicated that the Authority's limited manpower and vacant maintenance position adds to the delay.

Recommendation

The Authority should strive to comply with DHCD's timeframe so that vacant units can be reoccupied in a timely manner. If necessary, the Authority should consider hiring temporary help or entering into mutual and cooperative agreements with surrounding housing authorities

to assist on a reimbursement basis with getting vacant units ready for reoccupancy. In addition, DHCD should obtain and provide the Authority with the necessary funding to fulfill its mandate.

d. Funding of Modernization Initiatives

Our prior audit found that the Authority had applied to DHCD for funding for two capital modernization projects for its state-aided properties, but these requests were not funded by DHCD during the audit period. Our follow-up review indicated that DHCD has funded one request (replacement of 50-year-old boilers at its 200-1 and 200-2 Family developments). However, the Authority was still awaiting funding for its second request (rewiring at its Elderly development).

Deferring or denying needed modernization funding 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 cost the Commonwealth's taxpayers additional money due to inflation, higher wages, and other related costs.

Recommendation

The Authority should continue to appeal to DHCD to provide funding for its modernization needs in a timely manner.

e. Funds Borrowed for Modernization Needs

Our prior audit found that the Authority borrowed \$792,092 from CitiCapital Commercial Corporation to fund a DHCD-approved Energy Performance Contract in 2001 for its 667-1 Elderly development, located at Washington Avenue. All 285 toilets were replaced throughout the development and administrative offices, and new roofs, exterior doors, and windows were installed. The debt service payments on this loan continued during the 31-month period ended December 2004, totaling \$245,000. The Authority also indicated that \$245,000 of its operating reserve funds was used to fund the debt service during this time period, which created a severe

cash flow problem for the Authority, and that DHCD had not reimbursed the Authority for the funds it borrowed.

Our follow-up review indicated that on December 13, 2004, according to an extract of the Board Meetings, the Board of Commissioners voted to “amend the Municipal Lease and Option Agreement dated June 25, 2001 between CitiCapital Commercial Corporation (Lessor), the Stoneham Housing Authority (Lessee) and Escrow Agreement dated June 25, 2001 among the Lessor, the Lessee and Eastern Bank (Escrow Agent ...) to allow the entire balance of cash on hand in Eastern Escrow Account No. 2436624 now held in Eastern Bank, to be transferred to CitiCapital Commercial Corporation on or before December 25, 2004.” The result of this agreement was a reduction in the monthly payment from \$8,455.61 to \$2,462.03, although the same interest rate (5.81%) and the same term (through June 25, 2011) still applied. DHCD has agreed to reimburse the Authority for the funds it borrowed by permitting it to include the principal and interest as an annual budget line item.

2. TENANT PET DEPOSITS IMPROPERLY RETAINED

We found that the Authority did not deposit tenant pet deposits it received in an interest-bearing bank account separate from its operating account and that interest earned on each tenant’s pet deposit was not recorded separately. Tenant pet deposits were instead deposited in the Authority’s interest-bearing municipal checking account. In addition, three tenants who moved and the estates of five tenants who passed away did not receive a refund of their pet deposits and the interest earned thereon. Moreover, there was no evidence that the Authority was entitled to retain these deposits for repairs due to damages caused by the tenants’ pets.

In addition, our review of the Authority’s pet deposit subsidiary listing determined that the correct pet deposit balance as of June 30, 2008 was \$2,150 (including a total of \$845 in unreturned funds to moved/deceased tenants). However, the Authority’s June 30, 2008 Balance Sheet and General Ledger balance was \$2,935, resulting in an unaccounted-for variance of \$785.

DHCD’s pet deposit guidelines state that these funds are to “be implemented as a security deposit.” Moreover, Chapter 186, Section 15b(3)(a), of the Massachusetts General Laws states, in part: “any security deposit received by a lessor shall be held in a separate, interest-bearing account in a bank, located within the Commonwealth under such terms as will place such

deposit beyond the claim of creditors of the lessor, including a foreclosing mortgage or trustee in bankruptcy, and as will provide for its transfer to a subsequent owner of said property.” Furthermore, according to Chapter 186, Section 15b(3)(b), of the General Laws, “a lessor of residential real property who holds a security deposit pursuant to this section . . . shall . . . pay interest at the rate of five per cent per year, or other such lesser amount of interest as has been received from the bank where the deposit has been held payable to the tenant at the end of each year of the tenancy.” In addition, DHCD’s pet deposit guidelines state that “the deposit will be refunded at the time the tenant vacates or no longer has ownership of the pet, provided that no pet-related damage has been done to the property. Sums necessary to repair such damage will be deducted from the deposit ” and that one of management's responsibilities is “proper record keeping, ” including “billing for damages. ”

The Authority indicated that it has not complied with these requirements due to oversight. Nevertheless, because pet deposits are deposited in the Authority’s day-to-day checking account, these funds are not beyond the claims of creditors of the Authority, and tenants who have placed such funds in safekeeping with the Authority may lose their deposit as a result of a lawsuit. In addition, because the tenant pet deposits are commingled with the Authority’s funds, the Authority could inadvertently use pet deposits to pay its expenses.

Recommendation

The Authority should comply with the General Laws and DHCD’s pet deposit guidelines by transferring pet deposit balances from its municipal checking account to an interest-bearing account that tracks each tenant’s pet deposit and interest earned separately.

3. LEASE ADDENDUMS NOT SIGNED BY TENANTS

Our review of 10 continuing occupancy tenant files revealed that three tenants had not signed lease addendums. The 760 Code of Massachusetts Regulations 6:00 (Occupancy Standards and Tenant Participation for State-aided Housing) states “the lease shall specify the following obligations of the tenant, including responsibility for the behavior of household members and guests [6.06(5)].” One of these obligations is “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 [6.06(5)(q)].” In addition, “the lease shall specify reasons for termination of the lease and of occupancy of the unit by tenant and tenant’s household [6.06(6)].” One such

reason is the “failure to sign a lease (or a lease amendment) received from the LHA [local housing authority] which contains lease provisions approved by the Department [DHCD] or which is required because of changes in composition or income of tenant's household [6.06(6)(i)].”

We noted that the Authority did not ensure that tenants signed lease addendums when they came into the office to renew their lease. Section X(c)(10) of each tenant’s lease states, in part: “this lease and occupancy of the leased premises by tenant and tenant’s household members may be terminated by LHA for . . . failure to sign a lease, lease amendment, or lease addendum containing lease provisions authorized by the department [DHCD] or required by applicable regulations or applicable law” and “failure to sign lease provisions required by changes in size or income of tenant’s household.”

Recommendation

The Authority should comply with DHCD regulations by ensuring that all tenants sign lease addendums.

Auditee’s Response

The Authority concurred with the contents of this report, but chose not to submit a written response.