



The Commonwealth of Massachusetts

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NO. 2010-0616-3A

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
BOSTON HOUSING AUTHORITY
APRIL 1, 2008 TO DECEMBER 31, 2009**

**OFFICIAL AUDIT
REPORT
JANUARY 31, 2011**



SUZANNE M. BUMP, ESQ.
AUDITOR

The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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January 31, 2011

Dear Mr. McGonagle,

Enclosed is an audit report for your review. This audit of Boston Housing Authority covers the audit period of April 1, 2008 to December 31, 2009. This is one of a number of audits commenced and largely completed during the tenure of my predecessor, State Auditor A. Joseph DeNucci. Should you desire more information relative to this audit, please contact me.

I look forward to fostering a cooperative relationship between our respective offices. If my staff or I may be of assistance at any time, please do not hesitate to call upon us. I know we both share the goal of making government work better.

Sincerely,

A handwritten signature in black ink, appearing to read 'Suzanne M. Bump'.

Suzanne M. Bump, Esq.
Auditor of the Commonwealth

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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 Boston Housing Authority for the period April 1, 2008 to December 31, 2009. 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. 2006-0616-3A).

Based upon our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 21-month period ended December 31, 2009, 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. PRIOR AUDIT RESULTS SUBSTANTIALLY RESOLVED

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Our prior audit of the Authority (No. 2006-0616-3A), which covered the period July 1, 2003 to June 30, 2005, disclosed issues regarding (a) the availability of land to build affordable housing units and (b) noncompliance with Chapter II of the State Sanitary Code. Our follow-up review indicated that these issues had been substantially resolved, as discussed below:

a. Availability of Land to Build Affordable Housing Units

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Our prior audit report, found that the Authority had a large parcel of land on which it could build affordable housing units at its Jamaica Plain site. The Authority, despite its efforts to build affordable housing units, was precluded from building on this site due to the city zoning regulations.

b. Compliance with State Sanitary Code

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The Department of Housing and Community Development's (DHCD) Property Maintenance Guide, Chapter 3(F), requires inspection of housing units 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 255 instances of noncompliance with the State Sanitary Code, including peeling paint on ceilings, mold in bathrooms and bedrooms, chipped and broken tiles, holes in walls, broken countertops, antiquated wiring, insect infestation, out-of-date plumbing, damaged floors, and damaged doors. Our follow-up review determined that only one instance of noncompliance has not been remedied: rotten wooden porches located at 115 Boardman Street (705 Scattered Site Family Housing Development). The Authority stated that it is working with DHCD to obtain funds needed to address the remaining instance of noncompliance.

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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 request was not fully funded by DHCD during the audit period. Our follow-up review determined that the Authority has yet to receive all funding for its capital modernization projects. The Authority should continue to appeal to DHCD to provide the necessary funds to complete its capitalization projects. The Authority stated that it has requested the necessary funds from DHCD to address the issues noted in our report.

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Our prior audit report noted an issue regarding vacant units not being reoccupied within DHCD's guidelines, which state that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Specifically, our prior audit found that there were over 13,000 applicants on the Authority's waiting list, and the average turnaround time for reoccupying vacant units was 124 days. Our follow-up review disclosed that there are over 20,000 applicants on the Authority's waiting list, and the average unit turnaround time is 107 days.

In its response, the Authority indicated that the 21-day turnaround time remains an ambitious goal given the condition of many state units resulting from the long-running capital and operating shortfalls that were highlighted in the previous state audit.

4. INADEQUATE INVENTORY CONTROLS **7**

Our review of the Authority's internal controls over furniture and equipment determined that the Authority was not in compliance with established inventory control procedures. Specifically, we found that, contrary to DHCD guidelines, the Authority did not establish and maintain a complete subsidiary listing of its equipment that includes the cost, date of purchase, and description of each individual asset. Secondly, the Authority could not document that an annual inventory had been conducted to provide support for equipment balances listed on its general ledger and financial statements.

Because the Authority's subsidiary inventory listing was incomplete, the accuracy of the \$102,885 value reflected on its general ledger and financial statements is questionable. As a result, there is inadequate assurance that the Authority's assets are adequately safeguarded against possible loss, theft, or misuse.

In its response, the Authority indicated that it agreed that more frequent physical inventories would improve its control over furniture and equipment inventories.

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 Boston Housing Authority for the period April 1, 2008 to December 31, 2009. 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.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Procedures for making payments for payroll, 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 regulations.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.

- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition and to determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.
- 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.
- 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.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with contract provisions and determine whether rental charges by landlords were consistent with established rules and regulations.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0616-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 21-month period ended December 31, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS SUBSTANTIALLY RESOLVED

Our prior audit of the Boston Housing Authority (No. 2006-0616-3A), which covered the period July 1, 2003 to June 30, 2005, disclosed issues regarding (a) the availability of land to build affordable housing units and (b) noncompliance with Chapter II of the State Sanitary Code. Our follow-up review indicated that these issues had been substantially resolved, as discussed below:

a. Availability of Land to Build Affordable Housing

Our prior audit disclosed that the Authority had a large parcel of land on which it could build affordable housing units at its Jamaica Plain site, and recommended that the Authority apply to the Department of Housing and Community Development (DHCD) for funding to enable it to develop and construct affordable housing units at this site.

Our follow-up review found that despite the Authority's efforts to build affordable housing units, city zoning regulations prevented this development. The Authority's Chief Administrative Officer provided the following explanation:

The parcel is 75-79 Morton Street, new West Roxbury Court House in Jamaica Plain. There is no substantial change to the status of the parcel since the prior state audit. It is important to note that the land is zoned for open space or cemetery use. In order for the BHA to develop housing at the site, the BHA would have to seek a zoning amendment. This is very different than a variance or the kind of zoning approval the BHA normally seeks to construct housing – it is essentially a change to the zoning code which requires significant abutter and community support. The BHA does not have this level of community or city support for the required zoning amendment. Until and unless that changes, the BHA will be unable to develop this parcel for affordable housing units, despite the need for them.

b. Compliance with State Sanitary Code

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 prior audit of the Authority found 255 instances of noncompliance with Chapter II of the State Sanitary Code. Instances of noncompliance included peeling paint on ceilings, mold in bathrooms and bedrooms, chipped and broken tiles, holes in walls, broken countertops, antiquated wiring, insect infestation, out-of-date plumbing, damaged floors, and

damaged doors. We recommended that the Authority apply for funding from DHCD to address these issues. Our follow-up review determined that the Authority had taken corrective action to address 254 out of 255 prior instances of noncompliance. The remaining instance of noncompliance with Chapter II of the State Sanitary Code consisted of rotting wooden porches at 115 Boardman Street (705 Scattered Site Family Housing). The Chief Administrative Officer stated that the Authority will continue to apply for funding from DHCD to address the remaining issue.

Auditee's Response

In its response, the BHA Chief Administrative Officer stated the following:

The one remaining non-compliance item at 115 [105] Boardman St. involving rotten wooden porches has been included in a \$300,000 capital funding request sent to DHCD on October 5, 2010. The BHA hopes to address the porch issue as part of a larger program of needed but currently unfunded repairs for this particular scattered site property.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED - MODERNIZATION INITIATIVES NOT FUNDED

Our prior audit found that the Authority had applied to DHCD for funding for capital modernization projects for its state-aided properties; however, DHCD did not approve all of the Authority's requests. Our follow-up review determined that the Authority has received funding from DHCD for the following capital modernization projects:

- 200-2 Family Housing: Roof replacement
- 200-4 Family Housing: Roof replacement, exterior doors, intercoms
- 200-5 Family Housing: Roof replacement
- 200-7 Family Housing: Boiler replacement
- 200-10 Family Housing: Septic and sewer upgrade, site improvements
- 667-3 Elderly Housing: Fire alarm upgrade
- 705-6 Scattered Sites Family Housing: Unit renovations, new roofing

However, our follow-up review also determined that the Authority did not receive funding from DHCD for the following capital modernization projects:

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- 200-1 Family Housing: Septic and sewer upgrade, entrance doors and intercom replacement, site improvements, and kitchen and bathroom renovation -- Orton Marotta Way, South Boston
 - 200-2 Family Housing: Upgrade of domestic hot water system, intercoms and electrical/fire safety upgrade, and entrance doors replacement -- Lenox/Camden Street, Roxbury
 - 200-4 Family Housing: Kitchen and bathroom renovation, site improvements, heating systems upgrade, septic and sewer upgrade, and electrical upgrade -- Faneuil Street, Brighton
 - 200-5 Family Housing: Kitchen renovation and site lighting replacement -- Bow Street, Hyde Park
 - 200-7 Family Housing: Septic and sewer lines replacement, electrical/fire safety upgrade -- Brookway Road, Roslindale
 - 200-8 Family Housing: Site lighting replacement, entrance doors and intercom replacement, and heating plant replacement -- Waldemar Avenue, East Boston
 - 200-10 Family Housing: Electrical upgrade -- Standard Street, Mattapan
 - 200-12 Family Housing: Electrical upgrade, boiler replacement, septic and sewer upgrade, kitchen renovation, and site lighting improvement -- South Street, Jamaica Plain
 - 667-2 Elderly Housing: Kitchen and bathroom renovation -- Ames Street, Dorchester
 - 667-3 Elderly Housing: Domestic hot water storage tank replacement, site lighting, and fencing improvement -- L Street, South Boston
 - 705-1 Family Housing (Scattered Site): Kitchen and bathroom renovations -- Bowdoin Street
 - 705-6 Family Housing (Scattered Site): Fire systems upgrade, kitchen and bathroom replacement, and door replacement -- Blue Hill Avenue, George Street, Norwell Street, and Maryland Street

The Authority stated that it will continue to request the necessary funds from DHCD to address the issues noted in our report.

Recommendation

The Authority should continue to appeal to DHCD to provide the necessary funds to complete its capitalization projects.

Auditee's Response

In its response, the BHA Chief Administrative Officer stated:

The Authority appreciates the assistance provided by the Office of the State Auditor in bringing this item to the public's attention. The Auditor's previous BHA audit conducted in 2006 was instrumental in bringing this critical item of concern into focus and assisted the Authority in obtaining much needed funds. The BHA continues to bring its capital needs to the attention of State officials at DHCD. The Authority appreciates the difficulty DHCD has funding the Authority's requests given the extraordinary economic events since the 2006 audit. Nevertheless, the Authority agrees with the State Auditor that it should continue its appeals to DHCD to help preserve this crucial public resource.

3. PRIOR AUDIT RESULTS UNRESOLVED - VACANT UNITS NOT REOCCUPIED WITHIN DHCD GUIDELINES

Our prior audit report noted an issue regarding vacant units not being reoccupied within DHCD's guidelines, which state that housing authorities should reoccupy units within 21 working days of their being vacant by a tenant.

Specifically, our prior audit found that the Authority's average turnaround time for reoccupying vacant units was 124 days and that 13,000 applicants were awaiting housing on the Authority's waiting list. Our follow-up review determined that the Authority has over 20,000 applicants on its waiting list and that its average unit turnaround time is 107 days.

Recommendation

The Authority should establish procedures to improve the average turnaround time for its vacant units in accordance with DHCD guidelines.

Auditee's Response

In its response, the BHA Chief Administrative Officer stated:

The Auditor finds that the Authority's average turnaround in its state-funded apartment units is 107 calendar days. DHCD guidelines recommend a 21 working day turnaround to reoccupy a vacant apartment. The Authority notes that for its federally funded apartment units, the U.S. Department of Housing and Urban Development recommends a 50 day vacant unit turnaround. The Authority believes that DHCD's 21 working day

turnaround [time] is unrealistic given the funding levels provided. The 21 day turnaround [time] remains an ambitious goal given the condition of many state units resulting from the long running capital and operating shortfalls that were highlighted in the Auditor's previous audit.

4. INADEQUATE INVENTORY CONTROLS

Our review of the Authority's internal controls over furniture and equipment determined that the Authority was not in compliance with established inventory control procedures. Specifically, we found that, contrary to DHCD guidelines, the Authority did not establish and maintain a complete subsidiary listing of its equipment that includes the cost, date of purchase, and description of each individual asset. Secondly, the Authority could not document that an annual inventory had been conducted to provide support for equipment balances listed on its general ledger and financial statements.

The Authority's financial statements and general ledgers as of December 31, 2009 for its 400-1 program reported a balance of \$102,885 for the No. 7404 account, Other Equipment – Administration/Maintenance.

DHCD's Accounting Manual for State-Aided Housing Programs, Section 15D, requires the following inventory procedures:

- Furniture and equipment record cards or a computerized list should be established and maintained.
- A physical inventory of all furniture and nonexpendable equipment inventory must be taken each year.
- Once the inventory value is established, an accounting entry should be prepared for the Authority's financial records.

Because the Authority's subsidiary inventory listing was incomplete, the accuracy of the \$102,885 value reflected on its general ledger and financial statements is questionable. As a result, there is inadequate assurance that the Authority's assets are safeguarded against possible loss, theft, or misuse.

The Chief Administrative Officer stated that the Authority is in the process of a transition to a completely new financial system. Subsequent to our audit, the Authority conducted a physical

inventory on April 30, 2010. However, we noted that the Authority has not yet reconciled the results of the physical inventory to its financial records.

Recommendation

The Authority should ensure that its inventory control procedures are in full compliance with DHCD requirements by:

- Establishing a comprehensive inventory listing that includes the cost, purchase date, and description of the individual asset;
- Conducting an annual inventory to verify the existence and condition of its furniture and equipment; and
- Reconciling the results of the annual inventory to its financial records.

Auditee's Response

In its response, the BHA Chief Administrative Officer stated:

The Authority agrees with the Auditor that more frequent physical inventories would improve its control of furniture and equipment inventories. The Authority also notes that it advised the Auditor prior to commencing the Audit that the Authority was transitioning to a new enterprise financial system. While some inventory reports were not available due to this project, the Authority recognizes the need to record and monitor its purchases of inventory items and continues to do so throughout the transition period.