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

**OFFICIAL AUDIT
REPORT
JULY 29, 2008**

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INTRODUCTION

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Spencer Housing Authority for the period April 1, 2006 to March 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2006-0784-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 24-month period ended March 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED

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Our prior audit report on the Spencer Housing Authority noted certain areas in need of improvement, including (a) unreimbursed modernization costs, (b) unclear status of operating subsidies earned, received, and outstanding, (c) modernization initiatives not funded, and (d) availability of land to build affordable housing units. Our follow-up review indicated that the Authority has adequately addressed the above issues, as follows:

a. Reimbursement of Modernization Costs

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Our prior audit noted that the Commonwealth of Massachusetts Architectural Access Board cited the Authority for six violations concerning handicapped parking. The Authority incurred expenses totaling \$9,885 to address these issues, and they subsequently requested reimbursement from the Department of Housing and Community Development (DHCD) in September 2003. As of January 2004, this amount had not been reimbursed.

Our follow-up review revealed that DHCD would not reimburse the Authority for the above costs due to the Authority's high reserve balances. Nevertheless, we recommend that the Authority continue to seek reimbursement from DHCD to replenish its reserves for future emergency initiatives.

b. Operating Subsidies Received from DHCD

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During our prior audit, we requested and received from DHCD a statement of operating subsidy balances due and outstanding for each LHA of the Commonwealth as of June 30, 2005. During our field visits to the respective LHAs, we reviewed the subsidy records of each LHA to determine whether the amounts reported were in agreement with the balances reported by DHCD. We noted that the Authority's subsidy records indicated that DHCD owed the Authority \$12,408, whereas DHCD's records indicated that no operating subsidy was due. We recommended that the Authority communicate

with DHCD to determine what this balance represents and that the appropriate books of account be adjusted to reflect this balance.

Our follow-up review indicated that the Authority contacted DHCD, which confirmed that the subsidy was attributed to fiscal year 2004. The Authority subsequently received the \$12,408 subsidy on April 6, 2005.

c. Modernization Initiatives Addressed

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Our prior audit noted that the Authority applied for financial assistance from DHCD to convert vacant congregate housing units into elderly housing apartments. In addition, the prior audit reported on the Authority's need for modernization funding to address the demands of its elderly applicants, including a water infiltration problem that was causing wood rot, insect infestation, and mold, preventing the buildings from complying with Chapter II of the State Sanitary Code. We recommended that the Authority follow up on its request for DHCD funding to convert the vacant congregate housing building into elderly housing units and to request additional funds to remedy the water infiltration problem.

Our follow-up review revealed that the Authority, in cooperation with Tri-Valley Elder Services, Inc., has been able to lease four of the 10 units available as of March 31, 2008. The Authority indicated that since this effort has been a success, it has decided to discontinue its efforts to convert the congregate housing building into elderly units. Our follow-up review also noted that DHCD has awarded \$1,642,655 in modernization funds to the Authority to address the building deterioration issues. The contract was awarded to the Authority on March 20, 2008 with a notice to proceed on May 5, 2008 and an expected completion date of October 31, 2008.

d. Availability of Land to Build Affordable Housing Units

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Our prior audit noted that the Authority was notified by the Town of Spencer of its intent to convey a 1/5-acre parcel of land to the Authority on which it could potentially build additional affordable housing units. We recommended that the Authority follow-up with the Town concerning its intent to convey this land on which the Authority could potentially build additional housing.

Our follow-up review revealed that the Authority met several times with Town representatives, who proposed that the Authority create a nonprofit organization for this purpose and take a passive role in the decision-making process, with the town playing a larger role. After considering this proposal, the Authority's Board decided not to pursue this matter because it preferred a more active role in decision-making.

2. PRIOR AUDIT RESULT PARTIALLY RESOLVED - COMPLIANCE WITH STATE SANITARY CODE

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Our prior audit reported that deficiencies involving noncompliance with Chapter II of the State Sanitary Code were found in nine of the 10 state-aided housing units we inspected as part of our audit. The 11 instances of noncompliance that we identified in these units were caused mainly by water infiltration, including roof leaks, mold, peeling paint, missing screens, and faulty masonry.

During our follow-up review, we conducted inspections of the nine units that had previous issues of noncompliance with the State Sanitary Code and found that these issues have been partially resolved. Specifically, although the mold and window screen issues have been addressed, the water infiltration, roof leak, and peeling paint issues have not. However, DHCD has since awarded modernization funds to the Authority in the amount of \$1,642,655 to address the conditions noted above. The contract was awarded to the Authority on March 20, 2008 with a notice to proceed on May 5, 2008 and an expected completion date of October 31, 2008. In response to our draft audit report, the Authority's Chairman indicated that the majority of the issues noted in our report are currently being addressed in the Building Envelope Renovations Project.

INTRODUCTION

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of certain activities of the Spencer Housing Authority for the period April 1, 2006 to March 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to assess 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.

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.
- 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 funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior audit report (No. 2006-0784-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 24-month period ended March 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

Our prior audit report on the Spencer Housing Authority (No. 2006-0784-3A), which covered the period July 1, 2003 to June 30, 2005, disclosed that certain areas were in need of improvement, including (a) unreimbursed modernization costs; (b) status of operating subsidies earned, received, and outstanding; (c) modernization initiatives not funded, and (d) availability of land on which it could potentially build additional affordable housing units. Our follow-up review revealed that the Authority has adequately addressed the above issues, as follows:

a. Reimbursement of Modernization Costs

Our prior audit noted that the Commonwealth of Massachusetts Architectural Access Board cited the Authority for six violations concerning handicapped parking. The Authority incurred expenses totaling \$9,885 to address these issues, and they subsequently requested reimbursement from the Department of Housing and Community Development (DHCD) in September 2003. As of January 2004, this amount had not been reimbursed.

Our follow-up review revealed that DHCD would not reimburse the Authority for the above costs due to the Authority's high reserve balances. Nevertheless, we recommend that the Authority continue to seek reimbursement from DHCD and that DHCD should obtain and provide sufficient funds to the Authority to replenish its reserves for future emergency initiatives.

b. Operating Subsidies Received from DHCD

During our prior audit, we requested and received from DHCD a statement of operating subsidy balances due and outstanding for each LHA of the Commonwealth as of June 30, 2005. During our field visits to the respective LHAs, we reviewed the subsidy records of each LHA to determine whether the amounts reported were in agreement with the balances reported by DHCD. We noted that the Authority's subsidy records indicated that DHCD owed the Authority \$12,408, whereas DHCD's records indicated that no operating subsidy was due. We recommended that the Authority communicate with DHCD to determine what this balance represents and that the appropriate books of account be adjusted to reflect this balance.

Our follow-up review indicated that the Authority contacted DHCD, which confirmed that the subsidy was attributed to fiscal year 2004. The Authority subsequently received the \$12,408 subsidy on April 6, 2005.

c. Modernization Initiatives Addressed

Our prior audit noted that the Authority applied for financial assistance from DHCD to convert a vacant congregate housing building into elderly housing apartments. In a letter to DHCD dated March 19, 2004, the Authority stated:

I am writing to you today to ask for your assistance in the possibility of converting the current 6 bedroom Congregate housing unit into 2 or 3 elderly/handicapped studio's or apartments. Our elderly/handicap wait list is very long and growing daily. The admissions into the Congregate units has been very low, and currently the two residents have requested to transfer out into regular apartments. Once the two residents have transferred out, the 6-bedroom unit will be vacant. I thought this would be a good time to consider what alternatives we might have. The Congregate units have had a very high turnover rate and a low to no interest in leasing up there. I would appreciate any ideas or input you may have. Thank you in advance for your consideration in this matter.

In addition, the prior audit reported on the Authority's need for modernization funding to address the demands of its elderly applicants, including a water infiltration problem that was causing wood rot, insect infestation, and mold, preventing the buildings from complying with Chapter II of the State Sanitary Code. We recommended that the Authority follow up on its request for DHCD funding to convert the vacant congregate housing building into elderly housing units and to remedy the water infiltration problem.

Our follow-up review revealed that the Authority, in cooperation with Tri-Valley Elder Services, Inc., has been able to lease four of the 10 units available as of March 31, 2008. The Authority indicated that since this effort has been a success, it has decided to discontinue its efforts to convert the congregate housing building into elderly units.

Our follow-up review also noted that DHCD has awarded modernization funds to the Authority in the amount of \$1,642,655 to address the building deterioration issues. The contract was awarded to the Authority on March 20, 2008 with a notice to proceed on May 5, 2008 and an expected completion date of October 31, 2008.

d. Availability of Land to Build Affordable Housing Units

Our prior audit noted that the Authority was notified by the Town of Spencer of its intent to convey a 1/5-acre parcel of land to the Authority on which it could potentially build additional affordable housing units. We recommended that the Authority follow-up with the Town concerning its intent to convey land on which it could potentially build additional housing.

Our follow-up review revealed that the Authority met several times with Town representatives, who proposed that the Authority create a nonprofit organization for this purpose and take a passive role in the decision-making process, with the Town playing a larger role. After considering this proposal, the Authority's Board decided not to pursue this matter because it preferred a more active role in decision-making.

2. PRIOR AUDIT RESULT PARTIALLY RESOLVED - COMPLIANCE WITH STATE SANITARY CODE

Our prior audit disclosed that deficiencies involving noncompliance with Chapter II of the State Sanitary Code were identified at 9 of the 10 state-aided housing units we inspected as part of our audit. The 11 instances of noncompliance that were found in these units were caused mainly by water infiltration, including roof leaks, mold, peeling paint, missing screens, and faulty masonry.

During our follow-up review, we conducted inspections of the nine units that had previous issues of noncompliance with the State Sanitary Code and found that the Authority has partially resolved these issues. Specifically, although the mold and window screen issues have been addressed, the water infiltration, roof leaks, and peeling paint issues have not. However, DHCD has since awarded modernization funds to the Authority in the amount of \$1,642,655 to address the issues noted above. The contract was awarded to the Authority on March 20, 2008 with a notice to proceed on May 5, 2008 and an expected completion date of October 31, 2008.

Recommendation

The Authority should closely monitor the construction phase of all aspects of modernization work to ensure that all noncompliance issues have been properly resolved.

Auditor's Reply

In response to our draft audit report, the Authority's Chairman indicated that:

The majority of issues noted are currently being addressed in the Building Envelope Renovations Project.