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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT
JULY 1, 2006 TO JUNE 30, 2007**

**OFFICIAL AUDIT
REPORT
APRIL 3, 2008**

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Chapter 23B of the Massachusetts General Laws established the Department of Housing and Community Development (DHCD). DHCD provides state and federal funds and technical assistance to communities to help plan new developments, encourage economic development, revitalize older areas, improve local government management, build and manage public housing, stimulate affordable housing through the private sector, and respond to the needs of low-income people. For the fiscal year ended June 30, 2007, DHCD administered approximately \$682 million, of which \$423 million represented federal funds.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted a review of DHCD in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007. Based on our review, we have concluded that DHCD had adequate internal controls in place and complied with the requirements of the federal Department of Housing and Urban Development; OMB Circular A-133 and the Compliance Supplement; and all applicable laws, rules, and regulations, for the areas tested.

INTRODUCTION

Background

Chapter 23B of the Massachusetts General Laws established the Department of Housing and Community Development (DHCD). DHCD makes state and federal funds and technical assistance available to strengthen communities and help them plan new developments, encourage economic development, revitalize older areas, improve local government management, build and manage public housing, stimulate affordable housing through the private sector, and respond to the needs of low-income people. DHCD administers the state's public housing programs, coordinates its anti-poverty efforts, allocates federal community development program funds, and provides a variety of services to local government officials. For the fiscal year ended June 30, 2007, DHCD administered approximately \$682 million, of which \$423 million represented federal funds.

DHCD is responsible for a diversity of programs and services that are administered through three divisions and several commissions:

1. The Division of Community Services (DCS) is the conduit through which the agency serves Massachusetts' low-income population. In service to Massachusetts residents and municipalities, the Division offers programs, funding, and technical assistance to support the advancement towards self-sufficiency of low-income households and the revitalization of our cities and towns. The Division is responsible for planning, implementing, and monitoring the delivery of federal and state anti-poverty, neighborhood economic development, homeless prevention, fuel assistance, and weatherization programs across the Commonwealth, working in cooperation with the federal government, other state agencies, local and regional non-profits, and the private sector.

The Division concerns itself with the complex problems facing Massachusetts communities, and uses the agency's financial and human resources to help municipal governments holistically by building capacity, stabilizing their condition, and improving their quality of life. The Division is involved with infrastructure development and improvement, municipal government capacity-building, land-use planning, local economic development, housing rehabilitation, and social services. The Division also provides direct consulting, information, and training services programs to all local governments. The Division also provides a referral service to help communities access the services they need both inside and outside DHCD.

2. The Division of Public Housing and Rental Assistance has responsibility for administrative oversight of all state-aided public and private housing programs addressing the housing needs of low- and moderate-income families, the elderly, and persons with disabilities. The Division is composed of: the Bureau of Federal Rental

Assistance, which covers rental subsidies, upgrading of substandard rental housing, and a wide spectrum of support services tied to a rental subsidy; the Bureau of Massachusetts Rental Assistance, which provides rental subsidies in a flexible way that is more responsive to client choices; the Bureau of Housing Management, which oversees the operation and management of 254 local housing authorities and their 49,368 public housing units; the Bureau of Housing Finance, which has fiscal oversight of the financial records and capital expenditures of local housing authorities; and the Bureau of Housing Development and Construction, which has responsibility for the design, development, and construction of new public housing units and the modernization of existing ones.

3. The Division of Housing Development supports the production of affordable rental housing, including units for persons with special needs, and the construction or rehabilitation of affordable homes and condominiums for purchase by income-eligible first-time homebuyers. The Division provides affordable homeownership and rental opportunities in the private sector. Among the programs that are administered by the division are those that fund and encourage the development of mixed-income projects sponsored by community housing partnerships and developers that make housing overstock and foreclosure properties available to first-time homebuyers, and provide advantageous home financing terms for low- and moderate-income families. The Division's programs are the Low-Income Housing Tax Credit, [HOME Investment Partnerships Program \(HOME\)](#), Housing Stabilization Fund, Housing Innovations Fund, Local Initiative Program, Capital Improvement and Preservation Fund, Facilities Consolidation Fund, and Soft Second Program.

Other components include the Housing Appeals Committee, whose purpose is to increase the supply and improve the regional distribution of low- and moderate-income housing by allowing a limited suspension of existing local regulations that are inconsistent with construction of such housing; the Smart Growth Zoning and Housing Production Act, which encourages communities to create dense residential or mixed-use smart growth zoning districts, including a high percentage of affordable housing units, to be located near transit stations, in areas of concentrated development such as existing city and town centers, and in other highly suitable locations; Chapter 40B, which enables local Zoning Boards of Appeals (ZBAs) to approve affordable housing developments under flexible rules if at least 20% – 25% of the units have long-term affordability restrictions; the Architectural/Engineering Services Unit, which provides Architect/Engineer selection services for local housing authorities; and the Massachusetts Commission on Indian Affairs (MCIA), which was created by the Legislature in 1974 to assist Native American individuals, tribes, and organizations in their relationship with state and local government agencies, and to advise the Commonwealth in matters pertaining to Native Americans. According to the 2000 Federal Census, there are more than 38,000 Native Americans living in Massachusetts, 15,500 are enrolled in tribes and qualify for services.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted a review of DHCD for the period July 1, 2006 to June 30, 2007. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007. The Commonwealth's Fiscal Year 2007 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133 and the Schedule of Expenditures of Federal Awards

The audit results contained in this report are also reported in the Fiscal Year 2007 Single Audit of the Commonwealth of Massachusetts, Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of OMB Circular A-133, and the Schedule of Expenditures of Federal Awards mentioned above.

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133, revised June 27, 2003, and the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our review evaluated DHCD's compliance with Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our review of DHCD's activities, we referred to OMB Circular A-133 and the March 2007 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon our review, we determined requirements applicable to the Section 8 - Housing Choice Voucher, Community Development Block Grant; and Low-Income Home Energy Assistance programs, and designed appropriate tests to determine DHCD's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at DHCD during the review period.

- Assess and evaluate the program for compliance with the requirements of the Compliance Supplement, the federal Department of Housing and Urban Development, and the OSC.
- Follow-up on prior audit results, if any.

The criteria for our review were drawn from OMB Circular A-133 and the March 2007 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with DHCD's applicable responsibility for compliance with laws and regulations governing:

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Davis-Bacon Act
Eligibility
Equipment and Real Property Management
Matching, Level of Effort, Earmarking
Period of Availability of Federal Funds
Procurement, Suspension and Debarment
Program Income
Reporting
Real Property Acquisition and Relocation Assistance
Subrecipient Monitoring
Special Tests and Provisions

We examined, on a test basis, evidence about DHCD's compliance with the applicable requirements and performed such other procedures as we considered necessary. Based on these tests, we have concluded that DHCD had adequate internal controls in place and complied with the requirements of the federal Department of Housing and Urban Development; OMB Circular A-133 and the Compliance Supplement; and all applicable laws, rules, and regulations, for the areas tested.