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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
SOMERSET HOUSING AUTHORITY
JULY 1, 2005 TO SEPTEMBER 30, 2007**

**OFFICIAL AUDIT
REPORT**

MAY 7, 2008

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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 Somerset Housing Authority for the period July 1, 2005 to September 30, 2007. 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. Based on our review, we have concluded that during the 27-month period ended September 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

PRIOR AUDIT RESULTS RESOLVED

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Our prior audit reports (Nos. 2005-0777-3A and 2006-0777-3A) of the Somerset Housing Authority disclosed that certain areas were in need of improvement. Our follow-up review revealed that the Authority has adequately addressed the issues noted, as detailed below.

a. AUTHORITY INVESTMENTS INSURED

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Our prior audit (No. 2005-0777-3A) of the SHA disclosed that the Authority's investment accounts were not fully insured. Because the Federal Deposit Insurance Corporation insures savings and investments only up to \$100,000, the \$254,523 in the Authority's investment accounts as of June 30, 2004 was not adequately safeguarded. In its response to our prior report, the Authority indicated that corrective action had already been initiated to address this matter, effective upon the maturation of its Certificates of Deposit in August 2005. Our current review determined that the Authority has taken corrective action and that all savings and investment accounts are now adequately insured.

b. COMPLIANCE WITH STATE SANITARY CODE

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Our prior audit (No. 2006-0777-3A) reported that on January 17 and 19, 2006, we inspected 12 of the 135 state-aided housing units managed by the Authority and noted 23 instances of noncompliance with Chapter II of the State Sanitary Code. Our current review determined that all of the conditions described in our prior audit have been satisfactorily addressed.

c. MODERNIZATION INITIATIVES ADDRESSED

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Our prior audit (No. 2006-0777-3A) reported that the Authority believed that modernization of its managed properties was needed. Specifically, the Authority requested modernization funding from the Department of Housing and Community Development (DHCD) for capital improvement projects for its state-aided

developments; however, these requests were not funded in a timely manner by DHCD. Our current review disclosed that the Authority and DHCD have been working together to rehabilitate the Authority's structures to ensure that all of its housing units are safe and habitable.

d. OFFICIAL WRITTEN PROPERTY MAINTENANCE PLAN ESTABLISHED 4

Our prior audit (No. 2006-0777-3A) reported 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 current review determined that the Authority did respond when an issue affecting a tenant's housing unit was reported, and that the Authority and DHCD have been working together to rehabilitate the Authority's structures to ensure that its housing is safe and habitable.

e. AVAILABILITY OF LAND TO BUILD AFFORDABLE HOUSING UNITS 4

Our prior audit (No. 2006-0777-3A) reported that the Authority had approximately five acres of land on which it could potentially build additional affordable housing units. The need for additional housing is justified, considering that as of June 30, 2005, there were over 40 applicants on the Authority's waiting list. Our review determined that the Authority is working with the Town of Somerset and DHCD in an effort to address the need for additional affordable housing units.

INTRODUCTION

Background

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Somerset Housing Authority for the period July 1, 2005 to September 30, 2007. 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.
- 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 programs 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 audit reports (Nos. 2005-0777-3A and 2006-0777-3A).

Based on our review, we have concluded that during the 27-month period ended September 30, 2007, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

PRIOR AUDIT RESULTS RESOLVED

Our prior audit reports (Nos. 2005-0777-3A and 2006-0777-3A) of the Somerset Housing Authority disclosed that certain areas were in need of improvement. Our follow-up review revealed that the Authority has adequately addressed the issues noted, as detailed below.

a. Authority Investments Not Fully Insured

Our prior audit (No. 2005-0777-3A) disclosed that the Authority's investment accounts were not adequately insured. We reported that the Authority maintains both its checking and its investment accounts at a local commercial bank, and that as of June 30, 2004, the end of the Authority's fiscal year, the bank balances were \$28,615 in the checking account and \$254,523 in the investment accounts. Since Federal Deposit Insurance Corporation (FDIC) banking institutions are normally insured up to a maximum balance of \$100,000, the funds in excess of this amount are subject to potential loss should the bank fail. In its response, the Authority indicated that corrective action had already been initiated to address this matter, effective upon the maturation of its Certificates of Deposit in August 2005.

Our current review determined that all savings and investment accounts are now adequately insured.

b. Compliance with State Sanitary Code

Our prior audit of the Authority (No. 2006-0777-3A) disclosed that on January 17 and 19, 2006, we inspected 12 of the 135 state-aided dwelling unit inspection reports managed by the Authority and noted 23 instances of noncompliance with Chapter II of the State Sanitary Code. These areas of noncompliance included overloaded electrical outlets, cracks and frost heaves on the grounds of the development, deteriorating siding, windows with failed seals that did not lock properly, peeling paint on walls and ceilings, a ceiling that had mold and mildew, and other health and safety hazards.

Our current review determined that all of the conditions described in our prior audit have been satisfactorily acted upon.

c. Modernization Initiatives Addressed

Our prior audit (No. 2006-0777-3A) reported that the Authority believed that modernization of its managed properties was needed. Specifically, the Authority provided information regarding needed

capital modernization projects for which the Authority had formally requested funding from DHCD. Funding for these projects was not provided in a timely manner. It was noted that on December 2, 2002, the Authority was awarded modernization funding from DHCD for window replacement and stain for the siding at its 667 Elderly Development. Funding for the window portion of this project was originally requested from DHCD on June 7, 1994, and an additional request for the siding renovation was submitted on September 1, 1998. On March 2, 1999, the Authority was awarded \$112,500 to replace the windows.

Our current review determined that the Authority and DHCD have been working together to rehabilitate the Authority's structures and units to ensure that all of its housing units are safe and habitable.

d. Official Written Property Maintenance Plan Established

Our prior audit (No. 2006-0777-3A) found that the Authority did not incorporate DHCD's Property Maintenance Guide into its own 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.

Although our current review disclosed that the Authority still does not have a written preventive property maintenance guide, we determined that the Authority did respond when an issue affecting a tenant's housing unit was reported, and that the Authority and DHCD have been working together to rehabilitate the Authority's structures to ensure that all of its housing is safe and habitable.

e. Availability of Land to Build Affordable Housing Units

Our prior audit (No. 2006-0777-3A) found that the Authority had approximately five acres of available land, on two separate lots, on which it could potentially build additional affordable housing units. The need for additional housing is justified, considering that as of June 30, 2005, there were over 40 applicants on the Authority's waiting list.

Our current review determined that the Authority is working with the Town of Somerset and DHCD in an effort to address the need for additional affordable housing units.