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**INDEPENDENT STATE AUDITOR'S REPORT
ON THE PHYSICAL CONDITION
OF STATE-AIDED PUBLIC HOUSING UNITS
AND RESOURCES ALLOCATED FOR THE
OPERATION AND UPKEEP OF THE
WORCESTER HOUSING AUTHORITY
JULY 1, 2003 TO JUNE 30, 2005**

**OFFICIAL AUDIT
REPORT
OCTOBER 16, 2007**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted a statewide comprehensive audit of the physical conditions and the resources available to provide for the operation and upkeep of the state-aided public housing authorities of the Commonwealth. To accomplish our audit, we performed work at the Department of Housing and Community Development (DHCD) and obtained data from surveys and site visits to a selected, representative cross-section of 66 Local Housing Authorities (LHAs) throughout the state. The Worcester Housing Authority was one of the LHAs selected to be reviewed for the period July 1, 2003 to June 30, 2005. A complete list of the LHAs visited and surveyed is provided in our statewide report No. 2005-5119-3A. Our on-site visits were conducted to follow up on survey data we obtained in order to: observe and evaluate the physical condition of the state-regulated LHAs, review policies and procedures over unit site inspections, determine whether LHA-managed properties were maintained in accordance with public health and safety standards, and review the state modernization funds awarded to determine whether such funds have been received and expended for their intended purpose. In addition, we reviewed the adequacy of the level of funding provided to each LHA for annual operating costs to maintain the exterior and interior of the buildings and housing units, as well as capital renovation infrastructure costs to maximize the public housing stock across the state, and determined whether land already owned by the LHAs could be utilized to build additional affordable housing units. We also determined the number of vacant units, vacancy turnaround time, and whether any units have been taken off line and are no longer available for occupancy by qualifying families or individuals in need of housing.

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1. RESULTS OF INSPECTIONS – NONCOMPLIANCE WITH STATE SANITARY CODE

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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 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. On December 7 and 8, 2005, we inspected 21 of the 886 state-aided housing units managed by the Authority and noted 21 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint on ceilings, mold in bathrooms, chipped tiles, a leaky roof, a hole in the siding, a cable television wire trip hazard, and common area stairwells in need of replacement. In its response, the Authority indicated that corrective action has been taken to remedy these violations of the State Sanitary Code.

2. MODERNIZATION INITIATIVES NOT FUNDED

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In response to our questionnaires, the Authority indicated that on September 20, 2001 it submitted Condition Assessment Reports to DHCD for 11 capital modernization projects for its 200-1, 200-2, 705-1, and 667-3 developments. However, these requests were not funded by DHCD. Deferring or denying the Authority's modernization needs

may result in further deteriorating conditions that could render the units and buildings uninhabitable. Moreover, 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. The Authority chose not to address this audit result in its response.

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During our audit, we found that the Authority had parcels of land on which to build affordable housing. The need for additional housing is justified, given that the Authority's vacancy ledgers indicated that there were no vacant units available and that there was a waiting list of approximately 2,000 applicants. The Authority chose not to address this audit result in its response.

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The Contract for Financial Assistance between the Authority and DHCD requires DHCD to subsidize the Authority to meet its expenses. The Authority indicated that it was owed operating subsidies of \$1,549,875 from DHCD, contrary to the records of DHCD, which indicated that \$46,729 in operating subsidies were due the Authority. Moreover, since the Authority had not received operating subsidies in a timely manner from DHCD, it temporarily borrowed funds to pay operating expenses of its state programs. In its response, the Authority indicated that DHCD is now current relative to the payment of subsidies.

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INTRODUCTION

Background

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted a statewide comprehensive audit of the physical conditions and the resources available to provide for the operation and upkeep of the state-aided public housing authorities of the Commonwealth. To accomplish our audit, we performed work at the Department of Housing and Community Development (DHCD) and obtained data from surveys and site visits to a selected, representative cross-section of 66 Local Housing Authorities (LHAs) throughout the state. The Worcester Housing Authority was one of the LHAs selected to be reviewed for the period July 1, 2003 to June 30, 2005. A complete list of the LHAs visited and surveyed is provided in our statewide report No. 2005-5119-3A.

Our on-site visits were conducted to follow up on survey data we obtained in order to: observe and evaluate the physical condition of the state-regulated LHAs, review policies and procedures over unit site inspections, determine whether LHA-managed properties are maintained in accordance with public health and safety standards, and review the state modernization funds awarded to determine whether such funds have been received and expended for their intended purpose. In addition, we reviewed the adequacy of the level of funding provided to LHAs for annual operating costs to maintain the exterior and interior of the buildings and housing units, as well as the capital renovation infrastructure costs to maximize the public housing stock across the state, and determined whether land already owned by the LHAs could be utilized to build additional affordable housing units. We also determined the number of vacant units, vacancy turnaround time, and whether any units have been taken off line and are no longer available for occupancy by qualifying families or individuals in need of housing.

Audit Scope, Objectives, and Methodology

The scope of our audit included an evaluation of management controls over dwelling unit inspections, modernization funds, and maintenance plans. Our review of management controls included those of both the LHAs and DHCD. Our audit scope included an evaluation of the physical condition of the properties managed; the effect if any, that a lack of reserves, operating and modernization funds, and maintenance and repair plans has on the physical condition of the LHAs'

state-aided housing units/projects; and the resulting effect on the LHAs' waiting lists, operating subsidies, and vacant units.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audits tests and procedures as we considered necessary.

Our primary objective was to determine whether housing units were maintained in proper condition and in accordance with public health and safety standards (e.g., the State Sanitary Code, state and local building codes, fire codes, Board of Health regulations) and whether adequate controls were in place and in effect over site-inspection procedures and records. Our objective was to determine whether the inspections conducted were complete, accurate, up-to-date, and in compliance with applicable laws, rules, and regulations. Further, we sought to determine whether management and DHCD were conducting follow-up actions based on the results of site inspections.

Second, we sought to determine whether the LHAs were owed prior-year operating subsidies from DHCD, and whether the untimely receipt of operating subsidies from DHCD may have resulted in housing units not being maintained in proper condition.

Third, in instances where the physical interior/exterior of LHA-managed properties were found to be in a state of disrepair or deteriorating condition, we sought to determine whether an insufficient allocation of operating or modernization funds from DHCD contributed to the present conditions noted and the resulting effect, if any, on the LHAs' waiting lists and vacant unit reoccupancy.

To conduct our audit, we first reviewed DHCD's policies and procedures to modernize state-aided LHAs, DHCD subsidy formulas, DHCD inspection standards and guidelines, and LHA responsibilities regarding vacant units.

Second, we sent questionnaires to each LHA in the Commonwealth requesting information on the:

- *Physical condition of its managed units/projects*
- *State program units in management*
- *Off-line units*
- *Waiting lists of applicants*

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- *Listing of modernization projects that have been formally requested from DHCD within the last five years, for which funding was denied*
 - *Amount of funds disbursed, if any, to house tenants in hotels/motels*
 - *Availability of land to build affordable units*
 - *Written plans in place to maintain, repair, and upgrade its existing units*
 - *Frequency of conducting inspections of its units/projects*
 - *Balances, if any, of subsidies owed to the LHA by DHCD*
 - *Condition Assessment Reports (CARs) submitted to DHCD*
 - *LHA concerns, if any, pertaining to DHCD's current modernization process*

The information provided by the LHAs was reviewed and evaluated to assist in the selection of housing authorities to be visited as part of our statewide review.

Third, we reviewed the report entitled “Protecting the Commonwealth’s Investment – Securing the Future of State-Aided Public Housing.” The report, funded through the Harvard Housing Innovations Program by the Office of Government, Community and Public Affairs, in partnership with the Citizens Housing and Planning Association, assessed the Commonwealth’s portfolio of public housing, documented the state inventory capital needs, proposed strategies to aid in its preservation, and made recommendations regarding the level of funding and the administrative and statutory changes necessary to preserve state public housing.

Fourth, we attended the Joint Legislative Committee on Housing’s public hearings on March 7, 2005 and February 27, 2006 on the “State of State Public Housing;” interviewed officials from the LHAs, the Massachusetts Chapter of the National Association of Housing and Redevelopment Officials, and DHCD; and reviewed various local media coverage regarding the condition of certain local public housing stock.

To determine whether state-aided programs were maintained in proper condition and safety standards, we (a) observed the physical condition of units/projects by conducting inspections of selected units/projects to ensure that the units and buildings met the necessary minimum standards set forth in the State Sanitary Code, (b) obtained and reviewed the LHAs’ policies and procedures relative to unit site inspections, and (c) made inquiries with the local boards of health to determine whether any citations had been issued, and if so, the LHA’s plans to address the deficiencies.

To determine whether the modernization funds received by the LHAs were being expended for the intended purposes and in compliance with laws, rules, and regulations, we obtained and reviewed the Quarterly Consolidated Capital Improvement Cost Reports, Contracts for Financial Assistance, and budget and construction contracts. In addition, we conducted inspections of the modernization work performed at each LHA to determine compliance with its work plan.

To determine whether LHAs were receiving operating subsidies in a timely manner, we analyzed each LHA subsidy account for operating subsidies earned and received and the period of time that the payments covered. In addition, we made inquiries with the LHA's Executive Director/fee accountant, as necessary. We compared the subsidy balance due the LHA per DHCD records to the subsidy data recorded by the LHAs.

To assess controls over waiting lists, we determined the number of applicants on the waiting list for each state program and reviewed the waiting list for compliance with DHCD regulations.

To assess whether each LHA was adhering to DHCD procedures for preparing and filling vacant units in a timely manner, we performed selected tests to determine whether the LHAs had uninhabitable units, the length of time the units were in this state of disrepair, and the actions taken by the LHAs to renovate the units.

AUDIT RESULTS

1. RESULTS OF INSPECTIONS – NONCOMPLIANCE WITH STATE SANITARY CODE

The Department of Housing and Community Development's (DHCD) 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. We reviewed inspection reports for 21 of the 886 state-aided dwelling units managed by the Worcester Housing Authority. In addition, on December 7 and 8, 2005, we conducted inspections of these units located at the Authority's 200-1 development at Lakeside Apartments; 200-2 development at Curtis Apartments; 667-1 elderly housing development at Booth Apartments; 667-2 development at Greenwood Street; the 667-3 development at Lafayette Street; and the 667-4 development at Curran Apartments. Our inspection noted 21 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint on ceilings, mold in bathrooms, chipped tiles, a leaky roof, a hole in the siding, a cable television wire trip hazard, and common area stairwells in need of replacement. (Appendix I of our report summarizes the specific State Sanitary Code violation noted, and Appendix II includes photographs documenting the conditions found.)

The photographs presented in Appendix II illustrate the pressing need to address the conditions noted, since postponing the necessary improvements would require greater costs at a future date, and may result in the properties not conforming to minimum standards for safe, decent, and sanitary housing.

In October 2005, the Authority contracted to replace the leaky roof and replace the common area stairwells. The Authority expended \$75,089 out of its operating reserve to assist in maintaining the condition of their housing units in accordance with public health and safety standards because of the lack of modernization funds available.

Recommendation

The Authority should seek reimbursement from DHCD for the funds expended from its operating reserves so that it may take the necessary steps to correct the deficiencies noted during our inspections of the interior (dwelling units) and exterior (buildings) of the Authority. DHCD

should obtain and provide sufficient funds to the Authority to reimburse and remedy these issues in a timely manner.

Auditee's Response

In response to this issue, the Authority provided information indicating that all violations, with the exception of those at the Curtis Apartments, have been corrected and rectified. The Authority's Executive Director further stated that:

The violations, found in hallways at Curtis Apartments, are being completely addressed by a major multi-million dollar renovation that has already begun. While it will take several years to fund and complete, the project has already begun with nearly \$4 million having been expended . . . Some of the violations noted are the direct responsibility of the tenant. Tenant abuse (holes in ceiling and wall etc.) and poor housekeeping (mold, loose tv wire) are the direct result action. Nevertheless, when these violations are found during inspections or reported by tenants they are promptly corrected by the WHA.

Auditor's Reply

We commend the actions initiated by the Authority in response to our concerns. However, since the corrective measures taken by the Authority originated after the completion of our audit fieldwork, we cannot express an opinion on their adequacy and will review any and all corrective actions taken during our next scheduled audit.

2. MODERNIZATION INITIATIVES NOT FUNDED

In response to our questionnaires, the Authority informed us that there is a need for modernizing its managed properties. Specifically, the Authority indicated that on September 20, 2001, it submitted Condition Assessment Reports to DHCD for 11 capital modernization projects for its 200-1, 200-2, 705-1, and 667-3 developments, as follows:

<u>Date of Request</u>	<u>Development</u>	<u>Name</u>	<u>Purpose</u>
9/20/01	200-1	Lakeside	Plumbing
9/20/01	200-1	Lakeside	Security
9/20/01	200-1	Lakeside	Kitchens
9/20/01	200-2	Curtis	Roofs
9/20/01	200-2	Curtis	HVAC
9/20/01	200-2	Curtis	Plumbing
9/20/01	705-1	Main South	Kitchens/Baths

9/20/01	667-3	Lafayette	Heating
9/20/01	667-4	Curran	Heating
9/20/01	200-1	Lakeside	Comp. Mod.
9/20/01	705-1	Main South	Comp. Mod.

However, these requests were not funded by DHCD, thereby creating potential emergency situations and impacting the Authority's ability to provide safe, decent, and sanitary housing for its tenants.

Deferring or denying the Authority's modernization needs may result in further deteriorating conditions that could render the units and buildings uninhabitable. Moreover, 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 modernization needs into future years will cost the Commonwealth's taxpayers additional money due to inflation, higher wages, and other related costs.

In June 2000, Harvard University awarded a grant to a partnership of the Boston and Cambridge Housing Authorities to undertake a study of state-aided family and elderly/disabled housing. The purpose of the study was to document the state inventory of capital needs and to make recommendations regarding the level of funding and the administrative and statutory changes necessary to give local Massachusetts housing authorities the tools to preserve and improve this important resource. The report, "Protecting the Commonwealth's Investment - Securing the Future of State-Aided Public Housing," dated April 4, 2001, stated, "Preservation of existing housing is the fiscally prudent course of action at a time when Massachusetts faces an increased demand for affordable housing. While preservation will require additional funding, loss and replacement of the units would be much more expensive in both fiscal and human terms."

Recommendation

The Authority should continue to appeal to DHCD to provide the necessary modernization funds to remedy these issues in a timely manner.

Auditee's Response

The Authority chose not to address this audit result in its response.

3. AVAILABILITY OF LAND TO BUILD AFFORDABLE HOUSING UNITS

During our audit, the Authority informed us that it has parcels of land available on which to build additional housing units, as follows:

- 667-1 Development Booth Apartments - 2.2 acres.
- Rodney Street – one lot with room for a triplex (land may not be appropriate for development).
- 38-40 Lewis Street – one lot for one duplex.

The need for additional housing at the Authority is justified, considering that there are over 2,000 applicants listed and waiting for affordable housing. Without affordable housing, substantial costs may be incurred by the Commonwealth's social service programs and assistance organizations, where displaced individuals turn for help. A lack of decent affordable housing results in families living in substandard housing, living in temporary shelters or motels, or becoming homeless. The need for affordable housing is especially critical for the elderly, whose fixed incomes and special needs limit their housing options.

Recommendation

The Authority should continue to appeal to DHCD to obtain and provide the development funds needed to construct sufficient affordable housing units to meet the current demand.

Auditee's Response

The Authority chose not to address this audit result in its response.

4. STATUS OF OPERATING SUBSIDIES EARNED, RECEIVED, AND OUTSTANDING

The Contract for Financial Assistance between the Authority and the DHCD requires DHCD to subsidize the Authority to meet its expenses. During our 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 LHAs, we reviewed the subsidy records to determine whether the amounts were in agreement with balances provided by DHCD.

The Authority indicated that it was due \$1,549,875 from DHCD, contrary to the records of DHCD, which indicated an operating subsidy of \$46,729 was owed the Authority.

Because the Authority was not receiving operating subsidies in a timely manner from DHCD, it temporarily borrowed funds to pay the operating expenses of its state programs. This matter is further discussed in the Supplementary Information section of the report.

Recommendation

The Authority should communicate with DHCD to determine the correct amount of operating subsidy due the Authority and ensure that the proper amount is recorded in both DHCD's and the Authority's financial statements. Secondly, DHCD should resolve any variances by obtaining quarterly financial statements from each LHA so that it can monitor and reconcile operating subsidies due to and from each LHA. Finally, in order for the Authority to receive the subsidies it is entitled to on a timely and accurate basis, it is necessary that all variances be reconciled to ensure that DHCD is providing the requisite, adequate contribution.

Auditee's Response

In response to this issue, the Authority indicated that DHCD is now current relative to the payment of subsidies.

Auditor's Reply

Although we are pleased that the Authority has received past due subsidy balances, it should be noted that DHCD did not submit operating subsidies in a timely manner. DHCD should continue to provide the requisite subsidy balances to the LHAs in order to avoid situations in which LHAs must borrow funds to cover operating expenses.

SUPPLEMENTARY INFORMATION

1. *Worcester Housing Authority-Managed State Properties*

The Authority's state-aided housing developments, the number of units, and the year each development was built is as follows:

<u>Development</u>	<u>Number of Units</u>	<u>Year Built</u>
200-1	204	1949
200-2	390	1950
667-1	75	1955
667-2	61	1983
667-3	66	1988
667-4	50	1990
705-1	24	1983
705-2	<u>16</u>	1988
Total	<u>886</u>	

2. *Department of Housing and Urban Development Audit*

Subsequent to completion of our fieldwork, the Department of Housing and Urban Development (HUD) released an audit in which the Worcester Housing Authority was cited for using federal funds to pay state expenses. The HUD audit determined that the Authority used its Public Housing Operating Funds to pay expenditures for state-subsidized housing programs and other federal programs and did not properly allocate salary and benefit expenses to its Housing Choice Voucher program and Public Housing Operating Fund program.

HUD stated that these conditions occurred because the Authority did not follow the internal controls that it established to ensure compliance with its annual contributions contracts and HUD regulations. The Executive Director stated that he made a decision to loan Public Housing Operating Fund reserves to pay state expenses until the state reimbursed the Authority for its expenses. As of October 2005, the Authority received subsidy reimbursements from DHCD and reimbursed the Housing Choice Voucher and Public Housing Operating Fund programs.

APPENDIX I

State Sanitary Code Noncompliance Noted

Family 200-1 Development-Lakeside Apartments

<u>Location</u>	<u>Noncompliance</u>	<u>Regulation</u>
15 Lovell Street #3	Common Area: Paint on walls is peeling	105 CMR 410.500
38 Lakeside Avenue #6	Bedroom #1: Paint on ceiling is peeling	105 CMR 410.500
	Bathroom: Paint on ceiling is buckling	105 CMR 410.500
	Hallway: Loose cable TV wire on floor	105 CMR 410.256
52 S. Circuit Avenue #2	Common Area: Floor is worn, needs replacement	105 CMR 410.504
	Bathroom: Mold on ceiling	105 CMR 410.750

Family 200-2 Development - Curtis Apartments

51 Great Brook Valley Avenue #4	Inside Stairs: Tile flooring chipped	105 CMR 410.504
	Bathroom: Tiles on walls are chipped	105 CMR 410.500
	Paint on ceiling is peeling	105 CMR 410.500
	Bedroom: Holes on ceiling	105 CMR 410.500
5 Great Brook Valley Avenue #5	Bathroom: Tiles on walls are chipped	105 CMR 410.500
	Stairs: Paint underneath stairways is peeling	105 CMR 410.500
	Hole in wall	105 CMR 410.500
5 Great Brook Valley Avenue #4	Building Exterior: Tarred roof on building 5 is leaking, needs replacement	105 CMR 410.501

705 Development - Family Scattered Site

32 Ripley Street #A	Bathroom: Baseboard heater is pulling away from wall	105 CMR 410.500
	Building Exterior: Outside stairs have no railing	105 CMR 410.503
25 Benefit Street #B	Bathroom: Mold on ceiling	105 CMR 410.750

202 Beacon Street #B Bathroom: Tiles on tub are cracked 105 CMR 410.150

705-2 Family Scattered
Site Development

151 Lincoln Street Bathroom: Mold on ceiling 105 CMR 410.750

157 Lincoln Street Stairway: Paint on walls is peeling 105 CMR 410.500
Building Exterior: Hole on siding 105 CMR 410.500

APPENDIX II

Photographs of Conditions Found

200-2 Development
Great Brook Valley Avenue, #5
Paint Peeling – Interior Stairwell



200-2 Development
Great Brook Valley Avenue, #5
Hole in Wall – Interior Stairwell

