



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report-Issued October 2, 2012

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## Greenfield Housing Authority

For the period April 1, 2009 through March 31, 2011



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## INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted an audit of certain activities of the Greenfield Housing Authority for the period April 1, 2009 through March 31, 2011. The objectives of our audit were to assess the adequacy of the Authority's management control systems 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 deficiencies noted in our prior audit report (No. 2006-0669-3A), which covered the period July 1, 2003 through June 30, 2005.

Based on our current audit, we have concluded that, except for the issues addressed in the Audit Findings section of this report, for the period April 1, 2009 through March 31, 2011, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

### *Highlight of Audit Findings*

- Our prior audit noted deficiencies in the areas of: (a) compliance with Chapter II of the State Sanitary Code; (b) funding of modernization initiatives; (c) status of operating subsidies earned, received, and outstanding; and (d) availability of land to build affordable housing units. Our current audit indicated that all of these deficiencies have been adequately addressed.
- Our prior audit also noted that the Authority had not established an official written property maintenance plan. Our current audit revealed that this issue has been partially resolved. Specifically, the Authority has established an official written property maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. However, this maintenance plan does not include a specific provision requiring an annual inspection of units as required by DHCD.
- The Authority's fiscal year 2009 Notes to the Financial Statements indicate that Greenfield Housing Associates, Inc., (GHAI), a nonprofit corporation created by the Authority in 1989, is a "component unit" of the Authority. However, based upon the criteria set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB's) Codification of Governmental Accounting and Financial Reporting Standards, the OSA determined that the Authority and GHAI do not have the organizational and financial interrelationships that must exist to characterize GHAI as a component unit.

***Recommendations of the State Auditor***

- The Authority should amend its preventive maintenance plan to require annual inspections of the Authority's dwelling units and upon each vacancy to ensure compliance with the minimum standards set forth in Chapter II of the State Sanitary Code.
- The Authority's independent auditor should re-evaluate the status of GHAI to determine whether the Authority's financial statements need revision.

***Agency Progress***

The Authority has made progress in addressing our prior audit results by correcting all instances of noncompliance with Chapter II of the State Sanitary Code, applying for and receiving additional funding for its maintenance projects, resolving discrepancies within its operating subsidy records, and identifying buildable lots to expand its housing capacity. However, the Authority should supplement the property maintenance plan, which it developed in response to our prior audit, with a requirement for the annual inspection of Authority units to ensure that they comply with Chapter II of the State Sanitary Code. The Authority should also ensure that GHAI is properly characterized in its financial statements.

***Agency Response***

The Authority's written comments indicate that it is in full agreement with the issues raised in our report and that it has updated some of its key operational policies as a result.

## **OVERVIEW OF AUDITED AGENCY**

The Greenfield Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority has 128 elderly units (Chapter 667), 72 family/veteran units (Chapter 200), 40 family units (Chapter 705), and eight units for the developmentally disabled (Chapter 689). Each of these units is located in Greenfield. The Authority also administers 107 project-based, mobile vouchers under the Massachusetts Rental Voucher Program.

## 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 Greenfield Housing Authority for the period April 1, 2009 through March 31, 2011. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivable; (5) site inspections; (6) payroll, travel, and fringe benefits; (7) inventory controls over property and equipment; (8) contract procurement; (9) cash management and investment practices; (10) budgets approved by the Department of Housing and Community Development (DHCD) versus actual expenditures; (11) level of need for operating subsidies and operating reserves; (12) payments under the Massachusetts Rental Voucher Program; (13) modernization awards; (14) American Recovery and Reinvestment Act of 2009 (ARRA) awards; (15) funding for local tenant organizations; and (16) related-party relationships. In addition, we reviewed the Authority's progress in addressing the deficiencies noted in our prior audit report of the Authority (No. 2006-0669-3A).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with 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 determine whether 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 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.
- DHCD-approved operating budgets for the fiscal years covered by our audit 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.
- 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.
- 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.
- ARRA awards to verify that funds were received and disbursed in accordance with applicable laws, rules, and regulations and to determine the existence of any excess funds and the number of jobs created.
- The process of funding the Authority's Local Tenant Organizations (LTO) under 760 Code of Massachusetts Regulations 6.09.
- The Authority's financial and organizational relationship with Greenfield Housing Associates, Inc.

Based on our audit we have concluded that, except for the issues addressed in the Audit Findings section of this report, for the period April 1, 2009 through March 31, 2011, the Authority

maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

At the conclusion of our audit field work, the Authority was provided with a draft copy of this report for its review and comments. In response, the Authority did not provide specific comments on each issue but rather stated that it was in full agreement with the issues raised in our report.

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## AUDIT FINDINGS

### 1. PRIOR AUDIT RESULTS RESOLVED

Our prior audit (No. 2006-0669-3A) of the Greenfield Housing Authority, which covered the period July 1, 2003 through June 30, 2005, noted deficiencies in the areas of: (a) compliance with Chapter II of the State Sanitary Code; (b) funding of modernization initiatives; (c) status of operating subsidies earned, received, and outstanding; and (d) availability of land to build affordable housing units. Our current audit indicated that the Authority has adequately addressed these areas, as discussed below:

#### a. State Sanitary Code Compliance

The Department of Housing and Community Development's (DHCD) Property Maintenance Guide, Chapter 3(F), requires that local housing authorities conduct inspections of dwelling 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 disclosed that the Authority was not in compliance with Chapter II of the State Sanitary Code. Specifically, we found 11 instances of noncompliance at six housing units, including broken baseboards, clogged washing machine drains, damaged vinyl siding, unsecured and inefficient windows, and cracked sidewalks. (The Appendix of this report summarizes the 11 State Sanitary Code violations disclosed during our prior audit.) At that time, we recommended that the Authority apply for funding from DHCD to address these problems.

During our current audit, we re-inspected each of the six units and found that the Authority's maintenance staff had corrected each of the 11 deficiencies previously noted.

#### b. Modernization Initiatives

During our prior audit, the Authority reported a need for modernizing its managed properties. Specifically, the Authority had requested funding from DHCD to complete 18 modernization projects, including replacing boilers, roofs, and windows; renovating kitchens; and upgrading fire alarm systems. The Authority estimated that these projects would cost \$2,517,000 to complete. However, the Authority's funding request was denied by DHCD.

Our prior report noted that additional emergency situations could occur and that the Authority's ability to provide safe, decent, and sanitary housing for its elderly and family tenants would be seriously compromised if the Authority did not receive funding to modernize its managed properties. Moreover, we reported that deferring the modernization needs of the Authority into future years would only cost the Commonwealth's taxpayers additional money due to inflation and other related costs. Consequently, we recommended that the Authority reapply for and seek additional funding from DHCD to address its modernization needs in a timely manner.

Our current audit found that the Authority reapplied for and received funds totaling \$926,500 from DHCD to help complete these modernization projects. Also, the Authority received budget approval from DHCD to incur \$1,572,600 in extraordinary maintenance costs related to these projects. In addition, the Authority applied for and received American Reinvestment and Recovery Act of 2009 (ARRA) funds totaling \$624,250 to modernize its family/veteran development (Chapter 200) units.

**c. Status of Operating Subsidies Earned, Received, and Outstanding**

The contract for financial assistance between the Authority and DHCD requires DHCD to subsidize the Authority to meet its expenses. Our prior audit found that as of June 30, 2005, the Authority's subsidy records indicated that operating subsidies earned and due the Authority for fiscal year ended March 31, 2005 amounted to \$49,953. However, DHCD's subsidy records indicated that it owed the Authority \$52,687 as of June 30, 2005. The discrepancy between the balances provided by the Authority and DHCD prevented the determination of the correct subsidy balance due the Authority. Our prior report recommended that the Authority communicate with DHCD to determine the correct operating subsidy amount and ensure that this amount is properly recorded in both DHCD's and the Authority's financial statements.

Our current audit of the Authority's operating subsidy records found that the noted discrepancy was resolved. Specifically, the Authority's records indicate that it was due \$49,953 through March 31, 2005 and that DHCD paid the Authority that amount.

**d. Availability of Land to Build Affordable Housing Units**

Our prior audit disclosed that the Authority owns land on Elm Terrace, Oak Courts, and Sullivan Lane in Greenfield on which it could potentially build additional affordable housing

units. During our prior audit, the Authority's Executive Director indicated that the land may not be easy to develop because of serious ledge problems and wetland issues. We recommended that the Authority request funding from DHCD for a feasibility study to determine whether affordable housing units could be built on this land because there were over 700 applicants on the Authority's waiting list.

Our current audit found that the Authority has made a preliminary determination that buildable lots are available at its Elm Terrace, Oak Courts, and Sullivan Lane developments. The Authority determined that potentially 22 units could be built on these sites based upon its review of architectural and engineering site maps and site inspections.

## **2. PRIOR AUDIT RESULT PARTIALLY RESOLVED — OFFICIAL WRITTEN PROPERTY MAINTENANCE PLAN ESTABLISHED BUT DEFICIENT**

Our prior audit disclosed that the Authority did not have an official written property maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. The DHCD Property Maintenance Guide, Chapter 3(F), requires that inspections of local housing authority (LHA) 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. Further, DHCD's Property Maintenance Guide states, in part:

*The goal of good property maintenance at a public housing authority is to serve the residents by assuring that the homes in which they live are decent, safe and sanitary . . . . Every housing authority must have a preventative plan which deals with all the elements of its physical property and is strictly followed. . . . The basic foundation for your (LHA) maintenance program is your inspection effort . . . . The basic goals of an inspection program are to improve the effectiveness and efficiency of your maintenance effort. This will be achieved when you (LHA) have a thorough program of inspections when you observe all parts of the (LHA's) physical property, document the results of the inspections thoroughly, and convert the findings into work orders so that the work effort can be scheduled and organized. Inspections are the systematic observation of conditions and provide the foundation for capital improvements and long range planning, as well as a record of present maintenance needs.*

Without an official written property maintenance program in place, the Authority cannot ensure that its managed properties are in a safe, decent, and sanitary condition in accordance with the State Sanitary Code. Our prior report recommended that the Authority comply with DHCD's Property Maintenance Guide by establishing an official written property maintenance plan.

Our current audit found that the Authority had established a formal written property maintenance plan to inspect, maintain, repair, and upgrade its existing housing units. However, the Authority's plan, which incorporates most of DHCD's Property Maintenance Guide, does not include a specific provision requiring an annual inspection of units. This omission limits the Authority's ability to ensure that its units are consistently in compliance with the State Sanitary Code and could lead to untimely unit inspections and the potential deterioration of units.

***Recommendation***

The Authority should add a provision to its property maintenance plan requiring inspections of all dwelling units annually and upon each vacancy to ensure that they conform to the minimum standards for safe, decent, and sanitary housing set forth in Chapter II of the State Sanitary Code.

## OTHER MATTERS

The Greenfield Housing Authority's fiscal year 2009 Notes to the Financial Statements indicate that Greenfield Housing Associates, Inc., (GHAI), a nonprofit corporation created by the Authority in 1989, is a "component unit" of the Authority. Specifically, the Authority's fiscal year 2009 Notes to the Financial Statements state, in part:

*This entity [GHAI] is a component unit because of its close association and financial relationship with the Authority and, as such, this entity has been included in the financial statements. The year-end of GHAI is March 31 and, accordingly, their financial statements for the year ended March 31, 2009 have been blended into the Authority's financial statements in accordance with GASB 14.*

The Authority's independent auditor based this determination upon the criteria set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, which include whether:

- The organization is legally separate,
- The Authority holds the corporate powers of the organization,
- The Authority appoints a voting majority of the organization's board,
- The organization has the potential to impose a financial burden/benefit on the Authority, and
- The organization is fiscally dependent on the Authority.

However, the financial and organizational relationship between the Authority and GHAI was the subject of a public bid law protest filed with the Office of the Attorney General (OAG) by the Foundation for Fair Contracting of Massachusetts (FFCM). The OAG's Business & Labor Bureau's Bid Protest Decision, dated June 21, 2010, states, in part:

*The essence of FFCM's protest is that GHAI is acting as an agent for the Housing Authority, a public agency, for the renovation of the Winslow Building (the "project"). FFCM argues that the renovation is, therefore, public construction, subject to the public construction bidding law, M.G.L. c. 149, §§ 44A-J. GHAI and DHCD assert that the GHAI is an independent, private entity that is not subject to the public construction bid laws and was not acting as the Housing Authority's agent with respect to the project.*

*After investigation, viewing the totality of the circumstances, [the Bureau finds] that while the interconnection of the GHAI and the Housing Authority raises concerns, we cannot find that the project is subject to the public construction bidding laws. Accordingly, the Protest is Denied.*

After receiving the Bid Protest Decision, FFCM's legal representatives asked the OAG to review and reopen the matter based on the Authority's fiscal year 2005 through 2009 financial statements, which indicate that GHAI was a component unit of the Authority. FFCM's counsel asserted that the financial statements contained "new information." Concurrently, FFCM's legal representatives requested that the Office of the State Auditor (OSA) review the financial statements of the Authority and, in particular, its relationship with GHAI and the way in which their relationship is represented in the financial statements.

The OAG declined to reopen the bid protest investigation, given that the work on the Winslow project had already been completed. However, the OSA examined the financial and organizational relationship between the Authority and GHAI. This examination included a review of the Authority's fiscal year 2009 Notes to the Financial Statements, which, as previously noted, indicated that GHAI was a component unit of the Authority, and the Authority's fiscal year 2010 Notes to the Financial Statements, which indicated that the Authority had no component units. Also, the OSA reviewed the Authority's and, when available, GHAI's (a) annual budgets and year-end financial statements; (b) Independent Auditors' Reports; (c) list of board members; (d) board meeting minutes; (d) Articles of Incorporation; (e) legal correspondence; (f) management agreements; and (g) real estate records filed with the Franklin County Registry of Deeds. Our analysis of these documents, using the aforementioned GASB Codification of Government Accounting and Financial Reporting Standards as our criteria, disclosed the following:

- GHAI established itself as a separate legal entity by filing an Article of Incorporation with the Secretary of the Commonwealth.
- The Authority and GHAI have separate Boards of Directors.
- The boards have one common member, limiting the Authority's ability to improperly influence GHAI's actions.
- GHAI does not have the potential to impose a financial benefit/burden on the Authority.
- GHAI is fiscally independent of the Authority.
- The Authority does not set GHAI's annual budgets or operating policies.

Based on this, the OSA determined that the Authority and GHAI do not have the organizational and financial interrelationship that must exist to characterize GHAI as a component unit.

It should be noted that Authority's private auditor determined that the Authority had no component units during fiscal years 2010 and 2011. Further, the Authority's private auditor stated the following in an affidavit dated December 7, 2010 that it provided to the OAG:

*Note 2 of the Notes to the Financial Statements for 2009 did state that GHAI was a component unit of the Authority, but we now believe that statement was erroneous. Had we known then what we know now, we would not have presented GHAI as a component unit of the Authority.*

## APPENDIX

### State Sanitary Code Instances of Noncompliance Noted in Prior Audit Report

#### 200-1 Family/Veteran Development

<u>Location</u>	<u>Noncompliance</u>	<u>Regulation</u>	<u>Status</u>
60 Oak Courts	Windows are inefficient (air leaks/drafts)	105 CMR 410.501	Resolved
67 Oak Courts	Windows are inefficient (air leaks/drafts)	105 CMR 410.501	Resolved

#### 705 Family Development

37 Woodleigh Avenue	Holes in vinyl siding	105 CMR 410.500	Resolved
27 Spruce Street	Baseboard components need to be replaced	105 CMR 410.500	Resolved
	Frequent clogging of washing machine drainage system causes back-ups	105 CMR 410.351	Resolved
	Cuts on Formica kitchen counter-top	105 CMR 410.100	Resolved
	Windows are not secured	105 CMR 410.480	Resolved
	Windows are inefficient (air leaks/drafts)	105 CMR 410.501	Resolved

#### 667-1 Elderly Development

13B Elm Terrace	Sidewalk has cracks near front entrance	105 CMR 410.750	Resolved
	Windows are inefficient (air leaks/drafts)	105 CMR 410.501	Resolved
22D Elm Terrace	Loose overhead light in bedroom	105 CMR 410.351	Resolved