



The Commonwealth of Massachusetts
Office of the Inspector General

GREGORY W. SULLIVAN
INSPECTOR GENERAL

JOHN W. McCORMACK
STATE OFFICE BUILDING
ONE ASHBURTON PLACE
ROOM 1311
BOSTON, MA 02108
TEL: (617) 727-9140
FAX: (617) 723-2334

November 3, 2011

Mr. Joseph Connarton, Executive Director
PERAC
5 Middlesex Avenue
Suite 304
Somerville, MA 02145

David Pickering, Board Administrator
Chelsea Retirement Board
Chelsea City Hall
Room 214
Chelsea, MA 02150

Dear Messrs Connarton and Pickering:

Pursuant to 945 CMR 1:09(3)(c), this Office is providing you with information received by my Office for your review. The matter contains no audit or investigation findings but the subject of the information may be appropriate for administrative action by your respective agencies.

Specifically, it has come to our attention that you have or will be receiving an application for retirement benefits from Michael McLaughlin, Executive Director of the Chelsea Housing Authority. In cooperation with the Department of Housing and Community Development (DHCD), the OIG is reviewing matters regarding the compensation paid to Mr. McLaughlin. In the course of our review to date, we are bringing two elements of this matter to you for further review and investigation. If you conclude as we preliminarily have that a reported compensation level amounting to \$360,383 is not supportable under the operative law and regulations of housing authorities, then the basis of Mr. McLaughlin's pension benefit must be effectively reduced from \$360,383 to a substantially lesser amount.

The first area of inquiry pertains to the fact that Mr. McLaughlin's salary is funded in part by DHCD. As such, in accordance with 760 CMR 4:05 (1) and (1)(d), DHCD must approve the actual employment agreement.

Language in the above regulation states in pertinent part:

If the LHA [Local Housing Authority] and the executive director shall have negotiated an employment agreement to be funded in whole or in part by the Department [DHCD], the Department shall have approved the agreement.

The employment agreement must be established in accordance with DHCD's Guidelines for employment contracts. There is no authority in this Guidance that would support a salary amount of \$360,383. Nor is there information to date in the records that we have reviewed indicating that DHCD approved an employment agreement for Mr. McLaughlin totaling \$360,383. As such, the Chelsea Housing Authority is out of compliance with these provisions and the amount of \$360,383 cannot support a basis for Mr. McLaughlin's pension calculation.

The second area of inquiry pertains to a requirement that DHCD approve administrative salaries as part of its required budget approval process. Housing authorities are required to submit budgets certified by the Board of Commissioners for approval by DHCD. Relevant DHCD Policy Guidelines state as follows:

. . . The salaries shown [in the budget document] must be the total compensation received by the employee for the performance of his/her duties from all sources. . . ”

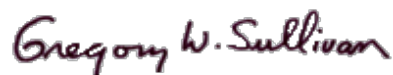
The most recent example of Chelsea's budget request is attached to this document. As you can see, it includes a composite amount totaling \$160,415 for Mr. McLaughlin's salary. As such, compensation of \$360,383 exceeds the budget amount that DHCD approved.

These two points indicate that the Chelsea Housing Authority was compensating Mr. McLaughlin in the amount of \$360,383 in violation of DHCD policy and regulation. Our preliminary review suggests that the compensation agreement was executed in violation of DHCD's guidelines and did not receive DHCD's requisite approvals.

Therefore, we request your vigilance to ensure that the basis for calculation of Mr. McLaughlin's pension benefits does not include compensation paid in excess of legally authorized amounts.

Thank you for your attention to this important matter. We are glad to assist you in any way that you may deem appropriate.

Sincerely,

A handwritten signature in dark ink that reads "Gregory W. Sullivan". The signature is written in a cursive style with a prominent "G" and "S".

Gregory W. Sullivan
Inspector General

Encl.

Housing And Finance Information System

Extract (Rev: 0)

Meeting

(regular/special)

Chelsea Housing Authority

Date: October 6, 2010 Time: 6:30 pm

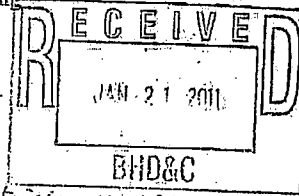
Members Present: Henry Cordero, Stephen Roche, Maria Rivera, James Haggerty

Members Absent: None

Others Present: Michael S. McLaughlin ED, James Fitzpatrick, and Dr. Zeff

Annual Operating Budget for State-Aided Housing Fiscal Year: 2011

Motion: Maria Rivera moved that the proposed Operating budget for State-Aided State Consolidated Housing of the Chelsea Housing Authority (Chapter 2000/667/705/689/MRVP), Program Number 400-1 for Fiscal Year Ending 12/31/2011 showing Total Revenue of \$ and Total Expenses of \$, there by requesting a subsidy of \$ 2,070,920.00 be submitted to the Department of Housing and Community Development for its review and approval. S. Roche seconded the motion which, upon roll-call, was passed by a vote of 3 to 2



Certified as a true and correct copy of a resolution adopted at said meeting and on file and of record by:

Michael S. McLaughlin

Secretary

Chelsea Housing Authority

Chelsea Housing Authority

(SEAL)

Date of Certification

Budget Certification

We, the undersigned members of the Chelsea Housing Authority, do hereby certify that in the preparation of the Authority's Annual Operating budget for Program No. 400-1 for the Fiscal Year beginning JANUARY 1, 2011. The Authority has complied with the provisions of the Massachusetts General Laws, Ch. 121B the contract(s) for Financial Assistance, as well as all rules regulations and requirements that may apply to the Administration of State-Aided Public Housing programs as set forth by DHCD. No person or persons employed at the Authority receive financial compensation for more than one position. In addition, to the best of the Authority's knowledge, the attached Budget establishes funding for the requested Budget Year.

We, the undersigned board members of the Chelsea Housing Authority further certify that we have received and read the quarterly operating statements for the previous quarters of the then current fiscal year for Program No. 400-1. We also acknowledge that we will receive and will read the year end statements for Program No. 400-1.

Please select the appropriate statement below:

- We further certify that no relationships of staff to any board member or other staff member of the Chelsea Housing Authority exist.
We further certify that no relationships of staff to any board member or other staff member exist at the Chelsea Housing Authority other than those disclosed on an attachment hereto.

Signature of Michael S. McLaughlin, Secretary, Ex Officio

Signatures of Henry Cordero (Chairman) and Stephen Roche

Signature of Maria Rivera

Signature of James Haggerty

Signed this 19th day of January 20 11

DHCD Approval

The electronic Budget submission is APPROVED in accordance with M.G.L Chapter 121B as amended. Specifics of the approval are contained in the attached approval letter to the local housing authority and as shown in the electronic budget request.

By: [Signature] Date: 10/5/11

Department of Housing and Community Development

Budget Request



Lha Name : Chelsea Housing Authority

No. of Units : 560

Fiscal Year Ending : 12/31/2011

Program : 400-1

Unit Months : 6720

Revision No. : 0 (Original)

Line	ACCT	Classification	PRIOR YEAR APPROVED BUDGET		LHA REQUEST		DHCD MODIFICATION	
			PUM	Amount	PUM	Amount	PUM	Amount
REVENUE								
1	3110	Shelter Rent - Tenants	314.73	2,115,000	321.43	2,160,000		
2	3115	Shelter Rent - Federal Section 8	0.00	0				
3	3190	Nonrenting Rentals	0.00	0				
4	3400	Administrative Fee - MRVP	0.00	0				
5	3610	Interest on Investments - Unrestricted	0.36	2,400	0.25	1,675		
6	3611	Interest on Investments - Restricted	0.00	0				
7	3690	Other Revenue	5.31	35,706	5.08	34,106		
8	3691	Other Revenue - Retained	0.00	0				
9	3692	Other Revenue - Operating Reserves						
10	3801	Operating Subsidy - DHCD (4001)	312.29	2,098,581	308.17	2,070,920	293.97	1,975,464
11	3802	Operating Subsidy - MRVP Landlords	0.00	0				
12	3803	Restricted Grants Received						
13	3920	Gain/Loss From Sale/Disp. of Prop.						
14	3000	TOTAL REVENUE	632.69	4,251,687	634.93	4,266,701	620.72	4,171,245
EXPENSES								
15	4110	Administrative Salaries	57.78	388,315	59.63	400,051		
16	4120	Compensated Absences						
17	4130	Legal	2.53	17,000	2.98	20,000		
18	4140	Members Compensation	3.72	25,000	3.27	22,000		
19	4150	Travel & Related Expenses	1.15	7,703	1.15	7,703		
20	4170	Accounting Services	1.51	10,140	1.58	10,620		
21	4171	Audit Costs	0.45	3,000	0.45	3,000		
22	4180	Penalties & Interest						
23	4190	Administrative Other	13.63	91,695	13.79	92,656		
24	4100	TOTAL ADMINISTRATION	80.77	542,753	82.74	556,030		
25	4230	Tenant Organization	0.41	2,750	0.41	2,750		
26	4310	Water	120.54	810,000	120.54	810,000		
27	4320	Electricity	160.77	1,080,352	146.95	1,001,000		
28	4330	Gas	70.86	476,190	67.72	455,100		
29	4340	Fuel	0.00	0	0.00	0		
30	4360	Energy Conservation	0.00	0	0.00	0		
31	4390	Other	0.00	0	0.00	0		
32	4300	TOTAL UTILITIES	352.16	2,366,542	337.22	2,266,100		
33	4410	Maintenance Labor	68.47	460,097	67.07	450,708		
34	4420	Materials & Supplies	11.90	80,000	15.63	105,000		
35	4430	Contract Costs	30.69	206,256	30.99	208,266	29.81	200,309
36	4400	TOTAL MAINTENANCE	111.07	746,353	113.69	763,974	112.50	756,017
37	4510	Insurance	14.19	95,390	13.71	92,104		
38	4520	Payment in Lieu of Taxes	1.55	10,440	1.55	10,400		
39	4540	Employee Benefits	72.26	485,619	75.57	507,844	72.60	487,844
40	4541	Employee Benefits - GASB 45						
41	4570	Collection Loss	1.49	10,000	0.74	5,000		
42	4580	Interest Expense	0.00	0				
43	4590	Other General Expense	0.00	0			2.98	20,000
44	4500	TOTAL GENERAL EXPENSES	89.50	601,449	91.67	615,348		
45	4610	Extraordinary Maintenance	1.49	10,000				
46	4611	Equipment Purchases - Non Capitalized	0.52	3,500	0.52	3,500		
47	4612	Restricted Reserve Expenditures						
48	4715	Housing Assistance Payments	0.00	0				

49	4801	Depreciation Expense						
50	4600	TOTAL OTHER EXPENSES	2.01	13,500	0.52	3,500		
51	4000	TOTAL EXPENSES	635.92	4,273,357	626.15	4,207,702	624.95	4,199,745
52	2700	NET INCOME (DEFICIT)	-3.22	-21,670	8.78	58,999	-4.24	-28,500
		CAPITAL EXPENDITURES						
53	7520	Replacements of Equip. - Capitalized	0.00	0				
54	7540	Belterments & Additions - Capitalized	0.00	0				
55	7500	TOTAL NONOPERATING EXPENDITURES	0.00	0	0.00	0		
56	7600	EXCESS REVENUE OVER EXPENSES	-3.22	-21,670	8.78	58,999	-4.24	-28,500

LHA Requested Comments

DHCD Modifications

As submitted, this budget exceeded the approved ANUEL by \$27,957. However, several modifications have been made. Account #4590. Other

