



The Housing Authority of the City of Woonsocket, RI

Capital Fund Program

**Office of Audit, Region 1
Boston, MA**

**Audit Report Number: 2019-BO-1002
May 7, 2019**



To: Marilyn B. O'Sullivan, Director, Office of Public Housing, 1APH
//Signed//

From: Tomas A. Espinosa, Acting Regional Inspector General for Audit, 1AGA

Subject: The Housing Authority of the City of Woonsocket, RI, Did Not Always Comply With Capital Fund Program and Procurement Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Housing Authority of the City of Woonsocket, RI's Public Housing Capital Fund program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 617-994-8454.



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The Housing Authority of the City of Woonsocket, RI, Did Not Always Comply With Capital Fund Program and Procurement Requirements

Highlights

What We Audited and Why

We audited the Public Housing Capital Fund program at the Housing Authority of the City of Woonsocket, RI, based on a request by the U.S. Department of Housing and Urban Development (HUD) and because we have not audited the Authority in more than 10 years. We also received a complaint regarding a property purchase and later demolition next to one of the Authority's developments. The audit objective was to determine whether the Authority administered its Capital Fund program in accordance with HUD's requirements; specifically, whether costs were eligible and supported and the Authority procured and awarded contracts in accordance with HUD requirements and its procurement policies. In addition, we wanted to determine whether the complaint regarding the Authority's purchase of a property and later demolition of the property next to one of its developments had merit.

What We Found

Authority officials did not administer the Capital Fund program in accordance with HUD requirements. Specifically, they did not always ensure that Capital Fund activity costs were eligible and supported. They did not always follow environmental review requirements and support that awarded contracts were procured in accordance with HUD requirements. Although the complaint reviewed had merit, non-Federal funds were used for the property purchase and demolition. These deficiencies occurred because Authority officials did not have adequate policies and procedures or always follow them to ensure that they met environmental review, procurement, and contract administration requirements. As a result, the Authority spent more than \$1.9 million for ineligible costs and more than \$1.4 million for unsupported costs and may spend \$125,491 for ineligible costs.

What We Recommend

We recommend that the Director of HUD's Boston Office of Public and Indian Housing require Authority officials to (1) repay from non-Federal sources more than \$1.9 million in ineligible costs related to environmental deficiencies and for payments made beyond the contract terms, (2) support that more than \$1.4 million spent was fair and reasonable and in accordance with Federal procurement and environmental review requirements or repay from non-Federal funds any amounts that cannot be supported, and (3) deobligate \$125,491 in funds not yet spent on ineligible activities and costs.

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Background and Objective

The Housing Authority of the City of Woonsocket, RI, was incorporated under the laws of the State of Rhode Island and operates under a board of commissioners. The executive director, who is appointed by the board of commissioners, runs the day-to-day operations of the Authority.¹ The Authority owns and operates six developments under an annual contributions contract² with the U.S. Department of Housing and Urban Development (HUD).

HUD provides capital funds to public housing agencies to carry out capital and management activities for Federal public housing units. HUD established this program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities.

Each year, the Authority must make a Public Housing Capital Fund submission to receive Capital Fund grants. The key element of the Capital Fund submission is the 5-year action plan, which describes the public housing agency's 5-year plans for Capital Fund activities and includes a budget, which details specific work to be performed in each year.³ Drawdowns and expenditures are not permitted until an environmental review has been completed by the responsible entity under 24 CFR (Code of Federal Regulations) Part 58. The responsible entity for the Authority was the City of Woonsocket, RI, according to a memorandum of understanding between the Authority and the City, dated May 7, 2014.

HUD authorized the Authority the following assistance for fiscal years 2014 through 2017:

Year	Capital Fund
2014	\$1,689,601
2015	1,721,931
2016	1,816,495
2017	<u>1,901,824</u>
Totals	7,129,851

The audit objective was to determine whether the Authority administered its Capital Fund program in accordance with HUD's requirements; specifically, whether costs were eligible and

¹ At the time of our audit, the Authority's executive director was on administrative leave, and the assistant director was acting as the interim executive director. As of February 2019, the board had appointed the interim executive director as executive director. Since 2014, there have been four different executive directors at the Authority.

² The annual contributions contract is the written contract between HUD and a public housing agency, under which HUD agrees to provide funding for a program under the Housing Act of 1937 and the public housing agency agrees to comply with HUD requirements for the program. To receive capital funds, the public housing agency enters into a Capital Fund annual contributions contract amendment to the annual contributions contract.

³ The Office of Public Housing, Boston Regional Office, oversees the Authority's use of capital funds.

supported and the Authority procured and awarded contracts in accordance with HUD requirements and its procurement policies. In addition, we wanted to determine whether the complaint regarding the Authority's purchase of a property next to one of its developments had merit. Specifically, the complainant was concerned with the Authority's use of limited funds to purchase and demolish a property next to one of its developments at more than the City's tax-assessed value and questioned the use of funds for this purpose. We issued a separate letter to the Authority regarding this matter as non-Federal funds were used.

Results of Audit

Finding 1: The Authority Did Not Always Comply With Capital Fund Program and Procurement Requirements

Authority officials did not always administer the Capital Fund program in accordance with HUD requirements. Specifically, they did not always ensure that Capital Fund activity costs were eligible and supported. They did not always follow environmental review requirements and support that awarded contracts were procured in accordance with HUD requirements. These deficiencies occurred because Authority officials did not have adequate policies and procedures or always follow them to ensure that they met environmental review, procurement, and contract administration requirements. In addition, according to Authority officials, they did not always follow procurement requirements because they started the process too close to the obligation deadline. As a result, the Authority spent more than \$1.9 million for ineligible costs and more than \$1.4 million for unsupported costs and may spend \$125,491 for ineligible costs. HUD also had no assurance that procurements were always fair and open and that costs were reasonable in accordance with HUD requirements.

Ineligible and Unsupported Costs Due to Environmental and Procurement Deficiencies

Authority officials did not always follow environmental requirements and support that they awarded contracts in accordance with HUD procurement requirements for all of the 14 activities in our sample, including 8 construction-related activities and 6 architectural and engineering activities. As a result, the Authority spent more than \$1.9 million for ineligible costs and more than \$1.4 million for unsupported costs and may spend \$125,491 for ineligible costs. See appendix C for questioned costs and deficiencies by activity.

Environmental Review Deficiencies

Authority officials did not comply with environmental review requirements in accordance with 24 CFR Part 58 for five activities reviewed. Specifically, for three construction-related activities,⁴ Authority officials did not notify the City, the entity responsible for performing the environmental reviews, of hazardous materials identified during testing, which required further mitigation in accordance with 24 CFR 58.71(b). The City determined that the activities were exempt. According to 24 CFR 58.34(a) and 58.34(b) and the environmental review record, exempt activities do not require that the public be notified through a notice of intent and request for release of funds or that HUD approve the activity before funds are committed to the activity. In addition, an exempt activity does not require mitigation for compliance with listed statutes or authorities, nor does it require a formal permit or license. However, the three construction-

⁴ The three activities include roof replacement at Morin Heights and Veterans Memorial (one activity), Crepeau Court, and Kennedy Manor.

related activities had asbestos or lead identified during testing and before award of the contract. Therefore, these activities should not have been classified as exempt. In accordance with 24 CFR 58.70 and 58.71(b), the Authority was required to notify the City of the testing results so it could update the environmental review record accordingly, publish the required notice of intent and request for release of funds, and obtain authorization to use funds for the activities before committing them. As a result, the Authority spent more than \$1.8 million on these three activities and the associated architectural and engineering costs, which were ineligible Capital Fund costs that need to be repaid. The remaining \$113,710 in funds not yet spent for two of the construction-related activities and one of the architectural and engineering activities should be deobligated. See appendix C for questioned costs and deficiencies by activity.

Authority officials were also unable to provide the environmental review records for the architectural and engineering contract for the roof⁵ and hot water heaters at Kennedy Manor. As a result, \$101,052 spent on hot water heaters at Kennedy Manor was unsupported.

These deficiencies occurred because Authority officials did not have adequate policies and procedures or always follow them to ensure that environmental reviews were properly performed and supported. They did not communicate the results to the City for any testing performed for hazardous materials in accordance with the memorandum of understanding between the City and the Authority and 24 CFR 58.71(b).

Procurement Deficiencies

Authority officials did not always comply with HUD and Federal procurement requirements⁶ and the Authority's procurement policy when awarding contracts for 12 of the 14 activities. They did not always maintain adequate records to detail the significant history of their procurements to support that they complied with requirements. They did not always document or adequately support a cost or price analysis for 10 procurements before awarding the contract to support cost reasonableness. Specifically, they did not always document an independent cost estimate, follow sole-source procurement requirements, document evaluations and negotiations for architectural and engineering activities, and competitively procure one architectural and engineering activity. They also exceeded contract terms and did not adequately document that one bidder was a responsible bidder. As a result, the Authority could not support that more than \$1.3 million⁷ in capital funds spent was supported and spent \$85,204 for ineligible costs. The remaining \$11,781 in costs not yet spent for one activity, which exceeded contract terms, should be deobligated. See appendix C for deficiencies and questioned costs by activity.

Authority officials did not document independent cost estimates for two construction-related activities during the audit, but provided them with their response to the draft audit report. For these two activities, the difference between the two bids submitted was about \$145,000 for one

⁵ These costs were ineligible based on the associated ineligible roof work.

⁶ Effective December 26, 2014, regulations at 2 CFR 200.318-200.326 cover procurement requirements. Regulations at 24 CFR 85.36 were also in effect during our audit period.

⁷ There were additional costs not supported as a result of procurement deficiencies, but these costs were questioned in the section on environmental review deficiencies. See appendix C for activities that also had procurement deficiencies.

activity and \$216,350 for the other activity. Further, the differences between the independent cost estimates for these two activities compared to the winning bids were \$336,600 and \$197,350, respectively. See table below. Authority officials also did not document an independent cost estimate for one architectural and engineering activity. Further, there were significant differences between five construction bids received and the independent cost estimates as follows:

Activity	Independent cost estimate	Bid amounts
Electrical panel replacements at Parkview Manor and Kennedy Manor ⁸	\$1,223,358	Bid 1 - \$1,785,000
Roof replacement at Morin Heights and Veterans Memorial	620,000	Bid 1 - 920,815 Bid 2 - 1,303,600
Roof replacement at Kennedy Manor	722,645	Bid 1 - 525,000 Bid 2 - 554,400 Bid 3 - 558,000
Exterior masonry at Parkview Manor	623,400	Bid 1 - 286,800 Bid 2 - 431,542
Attic draft stopping at Morin Heights	418,000	Bid 1 - 220,650 Bid 2 - 437,000

There were also significant differences between the bids submitted for the roof replacement at Morin Heights and Veterans Memorial, attic draft stopping at Morin Heights, and exterior masonry at Parkview Manor shown in the table above, and Authority officials awarded the contract to the lowest bidder. However, given the difference between the independent cost estimate and the differences among the bids, they did not complete a cost analysis for these activities to support cost reasonableness. According to Authority officials, the reason the bids and the independent cost estimates were significantly different was that architectural and engineering firms sometimes estimate costs too low and contractors do not always need the work so they bid more than the work is worth. Authority officials further stated that the State of Rhode Island put a lot of work out to bid so it did not get an adequate number of bids for the work advertised.

In addition, Authority officials did not obtain written HUD approval before awarding a sole-source contract in accordance with 2 CFR 200.320(f) and HUD Handbook 7460.8, REV-2, section 8.4. Although they received only one bid for this activity, they did not attempt to reinstate the bid process to obtain additional bids. Further, the sole bid received was more than \$561,000 greater than the independent cost estimate, which also included about \$200,000 for contingencies and allowances. Although Authority officials documented a cost analysis and

⁸ The Authority's central office cost center loaned the asset management projects about \$1 million for this project.

provided a written explanation for the variance in price from the independent cost estimate, it was not adequately supported. Authority officials did not adequately support the labor rates used in the cost analysis. Further, the certified payrolls in the file showed significantly lower labor rates than those used in the cost analysis. The Authority official who completed the cost analysis noted that rates were higher than usual due to the volume of work the State of Rhode Island was bidding out, which was not supported. As a result, Authority officials could not support the cost reasonableness of the bid. According to Authority officials, they did not initiate another bidding process for this activity because they would not have met Capital Fund obligation deadlines if they had rebid the work. Further the Authority stated that the work was an emergency and that HUD approval would not be required in this case; however, there was no justification in the file for use of emergency procedures prior to award of the contract and the file did not indicate that this was an emergency procurement. Further, even in the case of an emergency procurement, costs must be reasonable in accordance with 2 CFR Part 200.403(a) and HUD Handbook 7460.8, REV-2, section 8.4(B), which was not supported by the cost analysis performed by the Authority.

Further, Authority officials did not adequately document cost reasonableness for six architectural and engineering service activities, including evaluations and negotiations. For one of these activities, according to Authority officials, they did not competitively procure the activity because they did not have time due to Capital Fund program obligation deadlines.

Authority officials also exceeded contract terms for five activities. They exceeded the contract value and scope of work for two activities. For one of these activities, they increased the contract amount from \$69,900 to more than \$104,122,⁹ a 49 percent increase, without documenting that they completed a cost analysis to support cost reasonableness for the contract modifications.¹⁰ For the other activity, Authority officials paid¹¹ \$21,425 more to the architectural and engineering firm, a 58 percent increase, without an approved contract modification and cost analysis. Further, the request for additional funds was made after the work was completed. In addition, for the most recent architectural and engineering procurement, Authority officials did not exercise contract options before the contract expired for three¹² of the activities. As a result, the Authority spent \$85,204 for architectural and engineering costs after the contracts expired, which were ineligible costs, and may spend an additional \$11,781 for costs not yet spent on an expired contract that should be deobligated.¹³ See appendix C for questioned costs and deficiencies by activity. The architectural and engineering contracts also did not include the required options clauses.

⁹ Of this amount, \$101,052 was charged to the Capital Fund program.

¹⁰ We did not question the increase to the contract here as these funds were questioned under the environmental review section as unsupported.

¹¹ The original contract amount was \$51,200, and the Authority disbursed \$72,358 in capital funds for this contract.

¹² Architectural and engineering activities for Morin Heights and Veterans Memorial roof (one activity), Crepeau Court roof, and Morin Heights doors and hardware replacement.

¹³ Two of the three architectural and engineering activities were also ineligible based on environmental review deficiencies.

In addition, Authority officials did not adequately document that the bidder was responsible¹⁴ for one activity before awarding the contract. They also did not properly oversee this contract. Specifically, Authority officials issued a notice to proceed on May 31, 2018, with a construction start date of July 16, 2018, and completion date of December 27, 2018. As of September 25, 2018, the contractor had not started construction work, and the contract file did not contain a justification for the delay. As of February 2019, most of the work had been completed, but the contractor had not completed the painting. According to Authority officials, the painting was to be completed once the weather warmed up.

These deficiencies occurred because Authority officials did not have adequate policies and procedures or always follow them to ensure that procurement and contract administration requirements were met, including documenting the complete history of the procurement. In addition, Authority officials stated that they did not always follow requirements due to Capital Fund obligation deadlines.

Conclusion

The Authority spent more than \$1.9 million for ineligible costs and more than \$1.4 million for unsupported costs and may spend \$125,491 for ineligible costs because of the deficiencies identified. HUD also had no assurance that procurements were always fair and open and that costs were reasonable in accordance with HUD requirements. These deficiencies occurred because Authority officials did not have adequate policies and procedures or always follow them to ensure that they met environmental review, procurement, and contract administration requirements. In addition, according to Authority officials, they did not always follow procurement requirements because of obligation deadlines.

Recommendations

We recommend that the Director of HUD's Boston Office of Public and Indian Housing require Authority officials to

- 1A. Repay from non-Federal sources the \$1,864,914 in ineligible costs related to environmental deficiencies.
- 1B. Repay from non-Federal sources the \$85,204 in ineligible costs related to payments made beyond the contract terms.
- 1C. Support that the \$101,052 spent for one activity followed Federal environmental review requirements or repay this amount from non-Federal funds.
- 1D. Support that the \$1,325,967 spent for activities was fair and reasonable in accordance with Federal procurement requirements or repay from non-Federal funds any amounts that cannot be supported.

¹⁴ This includes factors, such as having adequate financial resources, the necessary experience and technical skills, accounting and operation controls, and construction equipment and being able to comply with the required or proposed delivery or performance schedule.

- 1E. Deobligate \$113,710 in funds not yet spent on ineligible activities with environmental review deficiencies and work with HUD to determine whether these funds can be reobligated to eligible activities.
- 1F. Deobligate \$11,781 in funds not yet spent on ineligible activities related to activities that exceeded contract terms and work with HUD to determine whether these funds can be reobligated to eligible activities.
- 1G. Develop and implement adequate policies and procedures to address the environmental deficiencies identified.
- 1H. Strengthen their policies and procedures to address the procurement and contract administration deficiencies identified.
- 1I. Strengthen their procedures to obligate capital funds in a timely manner.

We recommend that the Director of HUD's Boston Office of Public and Indian Housing

- 1J. Provide technical assistance to Authority officials to ensure that responsible staff receives necessary procurement and environmental review training.

Scope and Methodology

We performed our audit work from August 2018 to February 2019 at the Authority's office located at 679 Social Street, Woonsocket, RI. Our review covered the period January 1, 2015, through December 31, 2017, and was expanded to include additional activities due to the limited number of activities obligated during our audit period and to include funds spent for activities that were outside our audit period.

To accomplish our objective, we

- Reviewed relevant Federal procurement laws and regulations pertaining to the Capital Fund program.
- Reviewed the Authority's procurement policies and procedures and State procurement requirements.
- Interviewed Authority officials, the Authority's fee accountant, a City official who performed environmental reviews for the Authority, and HUD Office of Public Housing officials located in Boston, MA.
- Reviewed the Authority's annual financial statements for fiscal years 2015 and 2016 and the draft 2017 annual financial statements.
- Reviewed the list of contracts¹⁵ for activities for Capital Fund grant years 2015 through 2017.
- Reviewed the 2013 through 2017 amendments to the consolidated annual contributions contract and the Authority's physical needs assessment in effect during our audit period.
- Reviewed the Annual Statement and Performance and Evaluation Reports (form HUD-50075.1) for Capital Fund grant years 2013 through 2018, the Capital Fund Five-Year Action Plan (form HUD-500075.2), obligations and drawdowns from the electronic Line of Credit Control System, and the Authority's electronic Line of Credit Control System tracking spreadsheet by activity.
- Selected and reviewed 100 percent of the 13 activities obligated in the 2014 through 2017 Capital Fund grants as of August 15, 2018, under line items "Fees and Costs" and "Dwelling Structures" and selected and reviewed one additional activity obligated from

¹⁵ The contract list was as of August 15, 2018.

the 2013 Capital Fund grant.¹⁶ Total funds obligated for these 14 activities were more than \$4.3 million, and more than \$3.8 million had been disbursed as of January 31, 2019.

- Reviewed the Authority's hardcopy files and financial records for these 14 activities, which included 6 architectural and engineering activities and 8 construction activities.¹⁷
- Reviewed the Authority's board minutes from January 2015 through September 2018.
- Performed visual inspections of the Capital Fund activities to verify that work was completed and the status of activities that were in process during our review.
- Performed site visits of the property included in the complaint and the Authority's development adjacent to the property.
- Reviewed the Authority's bond debt payments and administrative costs charged to the Capital Fund program during our audit period to ensure that they were supported.

To achieve our objective, we relied in part on the Authority's computer-processed data. Although we did not perform a detailed assessment of the reliability of the obligation and disbursement data, we performed a minimal level of testing and found the data to be adequate for our purposes.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹⁶ We included the 2013 activity because all of the funds for this activity were disbursed during our audit period and the associated architectural and engineering activity was included on the 2014 Capital Fund grant in our universe. Some activities had funds obligated in fiscal year 2013, which we included in our review.

¹⁷ One activity reviewed also included non-Federal funds, which was a central office cost center loan to the asset management projects. We did not question the non-Federal funds in our review.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.
- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Validity and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable information is obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority did not have adequate policies and procedures or always follow them to ensure that they met environmental review, procurement, and contract administration requirements (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A.	\$1,864,914		
1B.	85,204		
1C.		\$101,052	
1D.		1,325,967	
1E.			\$113,710
1F.			11,781
Totals	1,950,118	1,427,019	125,491

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. If Authority officials implement our recommendation to deobligate \$125,491 in unspent costs for ineligible activities and contract costs and reobligate these funds for eligible activities and costs, these funds can be put to better use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



679 Social Street
Woonsocket, RI 02895
Tel: (401) 767-8000
Fax: (401) 767-8088

Board of Commissioners:

Richard Levesque
Chairman

Pauline Clancy
Vice Chairwoman

Michael Cayer
Steven D'Agostino
Jacqueline Daigle
Marc Dubois
Paul Lozeau

Robert R. Moreau
Executive Director

April 25, 2019

Mr. Tomas Espinosa, Assistant Regional Inspector
General (Region 1)
US Department of Housing & Urban Development
Office of Inspector General
10 Causeway Street Room 370
Boston, MA 02222-1092

Dear Mr. Espinosa:

Enclosed is the Woonsocket Housing Authority's (WHA) response to your draft audit report entitled The Housing Authority of the City of Woonsocket, RI Capital Fund Program. First we would like to commend the OIG staff that performed the audit fieldwork on their professionalism during this process.

It is prudent to make a statement about the housing authority and its executive management turnover in recent years. Between August 2014 and March 2015 the WHA had three senior staff management officials leave the Authority in a short time frame: the Executive Director, Deputy Director and the Finance Director.

**Ref to OIG
Evaluation**

A new director was hired in March 2015 and that person did not complete the probation period. The Board of Commissioners then named an acting ED and that person eliminated the Deputy Director position. This position at the time was responsible for procurement, planning, implementation, reviewing and documentation of modernization programs.

In March 2016 the Board made the interim director permanent. A new Finance Director was hired in April 2016. In June 2018, the Director was placed on leave and an interim director was chosen. During that period the Finance Director was removed. The ED resigned in December 2018 and I was appointed Executive Director by the Board in January.

After reviewing the audit draft, I must say and it must be stated, it was proven the WHA never used any money illegally, immorally, or unnecessarily on projects. The agency completed all projects meeting all codes and regulations. The deficiencies noted in the draft audit report deemed unsatisfactory do not reflect the due diligence taken by the Authority on these projects.

Also proven was there was no misappropriation of funds-every cent of the capital funds were used exactly as submitted to HUD. The WHA demonstrated due diligence and always put the health, life, and safety of all City residents, WHA's staff and residents at the forefront on all projects.

www.woonsockethousing.org

**Ref to OIG
Evaluation**

Comment 1

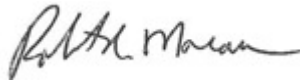
The WHA vehemently opposes the finding of a repayment of over three million dollars as a result of this audit. These infractions do not warrant a total project cost reimbursement. In fact, none of those funds were used improperly. To say that a total repayment of the funds used for the project must be paid back isn't justified. There was no neglect on the part of the Housing Authority.

The magnitude of the repayment of money would be detrimental to the WHA to continue to provide safe, quality and affordable housing to all our residents.

Comment 2

The Authority's response to the draft audit report and proposed policies and procedures are attached. The WHA looks forward to moving past these infractions. I look forward to working with HUD on perfecting our daily operations as we march forward at the Authority.

Sincerely,



Robert R. Moreau
Executive Director

Enclosure

Ref to OIG
Evaluation

Comment 3

Finding 1: The Authority Did Not Always Comply With Capital Fund Program and Procurement Requirements

Environmental Review Deficiencies

The WHA is cited for non-compliance of Environmental Review Reports not completed in accordance with requirements.

The WHA did comply with the 24 CFR Part 58, for the Environmental Review Reports (ERR). As noted in the OIG draft audit report the City of Woonsocket was the entity responsible for performing the environmental reviews for the WHA. The City and the WHA entered into a Memorandum of Understanding for paid services dating back to 2014. The City determined the projects as exempt. As an exempt classification, a notice of intent, request for release of funds and HUD approval was not required. During the audit it was determined that the projects should have been classified as non-exempt thus changing the requirements to include a notice of intent, request for release of funds and HUD approval. This deficiency caused the \$1,950,118 of capital fund to be classified as ineligible.

Previously supplied documentation illustrates that even with the technical misstep taken, projects with asbestos or lead were identified. These projects followed and adhered to all state and local codes, rules and regulations, such as, an asbestos abatement plan, the Rhode Island Department of Health approval of such plan, documentation of the waste disposal and lead paint protocols, as well as resident notifications. At no time were City or WHA residents exposed to hazardous substances or put in danger of exposure. All projects were completed professionally, timely and in a satisfactory manner. It must be stated, that even though we had a third party ERR preparer our protocols were completed and the deficiency was on the part of the preparer.

A new process is being implemented for all Capital Fund projects to require an architectural/engineering project summary to be completed and supplied to the preparer before the ERR is requested. This project summary will include any actual or presumed hazardous materials present. This will eliminate the possibility of any future incorrect classifications. All WHA staff involved in the ERR process will be trained.

**Ref to OIG
Evaluation**

Procurement Deficiencies

The WHA officials were cited for not complying with HUD and Federal procurement requirements and the Authority's procurement policy.

The deficiencies noted in the draft audit report deemed unsatisfactory do not reflect the due diligence taken by the WHA on these projects. It is clear that the audit did not find any illegal use or misappropriations of funds. Rather these findings are violations of procedural steps required by the procurement policy and unsupported due to the lack of documentation.

Every cent of the capital funds were used exactly as submitted to HUD. The WHA demonstrated due diligence and always put the health, life and safety of all City residents, WHA's staff and residents at the forefront on all projects.

Documentation provided shows all procurements followed HUD 24 CFR Part 58 whereas all bids were advertised in state wide, local, minority newspapers and the WHA website. This provided a fair and open competition. On various projects, outreach was completed using qualified companies in the appropriate field and the State of Rhode Island's Master Price Agreements Vendor List.

All projects had a completed independent cost estimate (ICE) in the binders as required by HUD 24 CFR Part 58. The draft audit acknowledges that the WHA prepared written cost estimates however it contends that the written cost estimate did not provide enough detail to substantiate the costs. Documentation supports an ICE completed by two separate architecture firms with estimated costs much lower than the actual bids received. The price analysis shows significant differences between the ICE and the actual bid documentation. Architect's notes supplied reference the State of Rhode Island bid out numerous projects in the area causing increased costs. The independent cost estimates were performed by qualified A&E firms, however, the communication was not sufficiently recorded.

Comment 4

**Ref to OIG
Evaluation**

Comment 5

One deficiency cited in this draft audit report should be deemed as an Emergency. Experts say that the Federal Pacific electrical panels previously installed in two of our elderly/disabled high rise buildings would not conform to today's updated safety codes and are no longer sold to the general public. Once the WHA learned of this safety hazard and after reviewing the WHA Procurement Policy, it was determined that an emergency condition did exist; per *5.5.1.2 of the Authority's procurement policy as noted below. This project was immediately initiated due to the manufactures flaws/defects causing the breaker not to trip when necessary and the panels being considered a fire risk. The draft audit determined these were unsupported costs of \$741,947 for the Electrical Panel replacements at Parkview Manor and Kennedy Manor. We respectfully disagree with this determination due to the severity of the situation.

**5.5.1.2 An emergency exists that seriously threatens the public health, welfare, or safety, or endangers property, or would otherwise cause serious injury to the WHA, as may arise by reason of a flood, earthquake, epidemic, riot, equipment failure, or similar event. In such cases, there must be an immediate and serious need for supplies, services, or construction such that the need cannot be met through any of the other procurement methods, and the emergency procurement shall be limited to those supplies, services, or construction necessary simply to meet the emergency;*

The draft audit cited unsupported projects that were not adequately supported in the areas of independent cost estimates, obligation of funds, price/cost analysis and contract administration.

Comment 6

- Two unsupported projects were completed under the past administration whereas multiple bids were received to justify cost reasonableness. These unsupported costs total \$486,122.

Comment 7

- The WHA had a contract register in place for all contracts. The Authority will be developing an enhanced contract administration system and document the complete history of the project.
- Independent cost estimates, cost/price analysis for future solicitations will be documented to provide cost reasonableness and saved in each project binder.
- During the immediate past administration approvals to obligate funds were not permitted which caused a hardship to meet capital fund obligation deadlines. A capital fund project timeline will be implemented on all future projects.

**Ref to OIG
Evaluation**

Comment 1

The WHA believed it was acting in compliance and made every effort to follow HUD rules and regulations to the best of their ability and that adequate controls were being maintained to ensure compliance with program requirements.

The Woonsocket Housing Authority strongly opposes the finding of a repayment of over three million dollars as a result of this audit. The infractions do not warrant a total cost project reimbursement. In fact, none of those funds were used improperly.

To say that a total repayment of the funds used for the project must be paid back isn't justified. Due diligence was done by the WHA and the flaw lies in the environmental reviews done by the preparer. It is inconceivable to expect 100% reimbursement for the entire project as a result of a technical misstep not completed by the preparer. There was no neglect on the part of the Housing Authority.

The enormity of loss of such a substantial amount of money would be detrimental to the Woonsocket Housing Authority to continue to provide safe, quality and affordable housing to all our residents.

Comment 8

The Executive Director and Staff take the results of this draft audit report very seriously and are acutely focused on ensuring that the failures of the past administrations will not be repeated. We have begun establishing new procedures and processes. A flow chart for all Capital Fund grants has been created. Each capital fund binder will contain HUD's Procurement File checklist as a verification of all required documentation and processes.

**Ref to OIG
Evaluation**

Comment 8

The WHA has recently undergone a re-organization and taken numerous steps to prevent issues like those found from taking place again. A modernization committee has been formed and is responsible for planning, implementation, reviewing and documentation of all modernization projects to fill the void of the deputy director's position. As a result of this repositioning, the Procurement and Reporting Officer is now able to concentrate on the procurement functions. It is indisputable that the past administration overwhelmed the Procurement Officer with tasks well outside the scope of her position. To ensure that we are in compliance with all of HUD's requirements, a training needs assessment will be conducted to ensure that all employees will be appropriately trained in their field of expertise.

The WHA is looking forward to working with the Boston field office to implement any changes to perfect our daily operations and maintain a good working relationship with HUD.

OIG Evaluation of Auditee Comments

Comment 1 The Authority disagreed with repayments based on the findings and did not believe the infractions warrant repayment of more than \$3 million. However, the OIG identified deficiencies related to environmental and procurement requirements that resulted in more than \$1.9 million in ineligible costs that require repayment. Regardless of whether the Authority followed other environmental review requirements, the activities were not exempt. Therefore, the Authority was required to notify the City to publish a notice of intent and request for release of funds before the funds were committed. Further, the Authority exceeded contract terms that resulted in ineligible costs. If the Authority can support the \$1.4 million in unsupported costs were fair and reasonable and that an environmental review was completed in accordance with requirements, the Authority may not be required to repay these funds. OIG encourages the Authority to work with the HUD Field Office during the audit resolution process to address the \$1.4 million in unsupported costs.

The Authority provided additional supporting documentation, which we evaluated and made the necessary revisions to our audit report. This information can be made available upon request. OIG did not make any cost adjustments to our report.

Comment 2 The Authority provided their response to the OIG audit report. The Authority acknowledged there were deficiencies and plans to work with HUD to improve daily operations.

Comment 3 We acknowledge that the Authority documented other environmental review protocols as indicated in its response. However, the Authority did not comply with 24 CFR 58.70 and 58.71(b) and the memorandum of understanding with the City of Woonsocket as stated in the finding. Specifically, the Authority did not inform the City of the results of hazardous materials testing. The Authority should have notified the City of the results and then the City could have published the required notice of intent and request for release of funds, and obtained the authorization to use the funds for the activities as required. The Authority stated it is implementing a new process to address the environmental review deficiencies identified and applicable staff will be trained in the environmental review reports process. OIG encourages the Authority to continue working with the HUD Field Office during the audit resolution process as it develops and implements this new process.

Comment 4 The OIG did not always find the independent cost estimate in the files provided. The Authority provided independent cost estimates for three of the four activities in response to the draft audit report. For the fourth activity, it provided an independent cost estimate for its most current architectural and engineering procurement in 2016; however, the procurement for this activity was in 2014. We updated the finding to include the information from the two independent cost

estimates provided for the construction activities and removed the missing independent cost estimate for one architectural and engineering activity from the finding. We also removed the missing independent cost estimate deficiency from appendix C for these three activities. Further, the OIG found significant differences between the independent cost estimates and bids received and between bids for the two construction activities. The Authority did not document or adequately support why there were significant differences and acknowledged communication was not sufficiently documented. As a result, cost reasonableness was not supported. The Authority will need to work with HUD to adequately support the reasonableness of these costs.

Comment 5 The OIG updated the finding to include the Authority's additional reason for the sole-source procurement. The Authority stated that this was an emergency; however, the file did not indicate that this was an emergency procurement before awarding the contract and did not include the required justification for a noncompetitive procurement. Further, the Authority put this activity out to bid, which indicates that they did not consider it an emergency procurement at the time. OIG agrees that there was a safety hazard with the electrical panels and that the procurement could have qualified as an emergency; however, the Authority needed to document its justification for this noncompetitive procurement and support that the costs were reasonable in accordance with HUD procurement requirements. Therefore, we did not revise the unsupported costs for this activity.

Comment 6 The OIG found that the Authority did not always follow procurement requirements. For the two activities, we updated the finding to include the information provided from the independent estimates and removed the missing independent cost estimates from appendix C. Although there was more than one bid in these two activities, given the differences, cost reasonableness was not supported.

The Authority's procurement policy stated where sufficient bids are not received, and when the bid received is substantially more than the independent cost estimate, and where the Authority cannot reasonably determine price reasonableness, the Authority must conduct a cost analysis, consistent with Federal guidelines, to ensure that the price paid is reasonable. The Authority did not provide a cost analysis for either activity. The OIG determined the costs paid for these activities were unsupported.

Comment 7 The Authority stated that it will be developing and implementing additional steps to address the procurement, contract administration, and obligation of capital funds. The Authority should continue working with the HUD Field Office during the audit resolution process as it develops and implements these steps.

Comment 8 The Authority stated that it has begun establishing new procedures and processes. In addition, the Authority stated it has undergone a re-organization and taken steps to prevent issues like those found from taking place again. The Authority

indicated that a training needs assessment will be conducted to ensure that all employees will be appropriately trained in their field of expertise. We look forward to reviewing any supporting documentation and working with the HUD Field Office on closure of this recommendation.

Appendix C

Deficiencies and Questioned Costs by Activity

	Description	Capital funds obligated	Capital funds disbursed	Ineligible costs	Unsupported costs	Funds to be put to better use	Total questioned costs	Deficiencies
Construction activities (dwelling structures)								
1	Electrical panel replacements at Parkview Manor and Kennedy Manor	\$741,947	\$741,947	\$0	\$741,947	\$0	\$741,947	2, 4
2	Roof replacement at Morin Heights and Veterans Memorial ¹⁸	920,815	835,015	835,015	0	85,800	920,815	1, 2
3	Door and door hardware replacement at Morin Heights	864,682	460,439	0	0	0	0	7
4	Roof at Crepeau Court	392,000	374,255	374,255	0	17,745 ¹⁹	392,000	1
5	Exterior masonry at Parkview Manor	280,238	280,238 ²⁰	0	275,678	0	275,678	2
6	Attic draft stopping at Morin Heights	210,444	210,444	0	210,444	0	210,444	2
7	Hot water system at Kennedy Manor ²¹	101,052	101,052	0	101,052	0	101,052	1, 6
8	Roof replacement at Kennedy Manor	502,875	502,875	502,875	0	0	502,875	1
Architectural and engineering (fees and costs)								
9	Architectural and engineering for electrical panel replacements at Parkview Manor and Kennedy Manor	46,965	46,965	0	46,965	0	46,965	2, 5

¹⁸ Authority officials also did not support that the \$835,015 spent was reasonable for this activity.

¹⁹ Authority officials obligated \$392,000 in capital funds but spent only \$374,255. Therefore, they need to deobligate the remaining \$17,745 from this activity.

²⁰ We did not question \$4,560 in other costs charged to this activity.

²¹ Authority officials did not support that \$31,151 of the \$101,052 spent for contract modifications was reasonable for this activity.

	Description	Capital funds obligated	Capital funds disbursed	Ineligible costs	Unsupported costs	Funds to be put to better use	Total questioned costs	Deficiencies
10	Architectural and engineering for roof replacement at Morin Heights and Veterans Memorial ²²	64,576	54,411	54,411	0	10,165	64,576	2, 5, 6
11	Architectural and engineering for door and door hardware replacement at Morin Heights	75,560	63,779	63,779	0	11,781	75,560	2, 5, 6
12	Architectural and engineering for roof replacement at Crepeau Court ²³	48,000	50,179	50,179	0	0	50,179	2, 5, 6
13	Architectural and engineering for exterior masonry at Parkview Manor and attic draft stopping at Morin Heights	78,951	78,951 ²⁴	21,425	50,933	0	72,358	2, 3, 5, 6
14	Architectural and engineering for roof replacement at Kennedy Manor ²⁵	<u>48,179</u>	<u>48,179</u>	<u>48,179</u>	<u>0</u>	<u>0</u>	<u>48,179</u>	1, 2, 5, 8
		4,376,284	3,848,729	1,950,118	1,427,019	125,491	3,502,628	

List of Deficiencies

1. Environmental reviews were not completed in accordance with requirements.
2. Cost or price analysis was not documented or supported before contract award.

²² We questioned the costs for this activity as ineligible because the related construction-related work was ineligible due to environmental review deficiencies. Authority officials also did not support that the \$54,411 spent was reasonable for this activity.

²³ We questioned the costs for this activity as ineligible because the related construction-related work was ineligible due to environmental review deficiencies. Authority officials also did not support that the \$50,179 spent was reasonable for this activity. They spent more funds than were obligated for this activity, indicated that a budget revision was needed, and suggested adjusting the budget downward for another activity.

²⁴ We did not question \$6,593 in other costs charged to this activity.

²⁵ We questioned the costs for this activity as ineligible because the related construction-related work was ineligible due to environmental review deficiencies.

3. The independent cost estimate was not documented and supported before bids were solicited.
4. Sole-source requirements were not followed.
5. Evaluations and negotiations were not adequately supported for architectural and engineering services.
6. Costs exceeded contract terms.
7. Responsibility of the bidder was not adequately documented.
8. Noncompetitive contract was improperly awarded.