

**OFFICE OF AUDIT**

**Region 1**

**Boston, MA**



**Lowell Housing Authority, Lowell, MA**

**Public Housing and Recovery Act Capital Fund  
Programs**

**2013-BO-1003**

**SEPTEMBER 04, 2013**



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TO: Marilyn B. O'Sullivan,  
Director, Office of Public Housing, Boston Hub, 1APH

//SIGNED//

FROM: Edgar Moore  
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SUBJECT: The Housing Authority of the City of Lowell, MA, Did Not Always Operate Its Public Housing and Recovery Act Capital Fund Programs in Compliance With HUD Regulations and Its Own Policies

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Lowell Housing Authority, Lowell, MA's Public Housing and Recovery Act Capital Fund programs, including the force account 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 8L, requires that OIG post its publicly available reports on the OIG Web site. 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 (212) 264-4174.



September 04, 2013

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## **The Housing Authority of the City of Lowell, MA, Did Not Always Operate Its Public Housing and Recovery Act Capital Fund Programs in Compliance With HUD Regulations and Its Own Policies**

# Highlights

Audit Report 2013-BO-1003

### What We Audited and Why

We audited the Lowell Housing Authority's Public Housing and Recovery Act Capital Fund programs, including its force account activities. We initiated this audit based on news articles identifying concerns with the Authority's use of force account labor. Our overall audit objective was to determine whether the Authority (1) administered its force account modernization program in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations and (2) followed HUD procurement regulations and its own procurement policy.

### What We Recommend

We recommend that the Director of HUD's Boston Office of Public Housing require Authority officials to conduct an independent cost analysis for each of the 14 force account activities for which the Authority failed to perform initial cost estimates and maintain construction records and modernization files to ensure that more than \$6.7 million in capital funds and \$2.5 million in Recovery Act funds charged to Federal programs were reasonable and supported. In addition, we recommend that Authority officials conduct a review to determine whether more than \$2.2 million in procurement costs charged to the Federal capital fund and Recovery Act programs were reasonable and supported. Any costs determined to be unreasonable or ineligible should be reimbursed from non-Federal funds to HUD or the U.S. Treasury in accordance with the appropriate capital fund regulations.

### What We Found

The Authority did not always operate its force account modernization program in compliance with HUD regulations. This condition occurred because Authority officials failed to establish adequate management controls for the force account program to ensure that funds were used in an economical and efficient manner. As a result, more than \$6.7 million in Federal capital funds and \$2.5 million in Federal American Recovery and Reinvestment Act funds expended for the force account program were unsupported.

In addition, Authority officials did not always follow proper procurement procedures. This condition occurred because of ineffective management controls over the procurement process. As a result, officials could not assure HUD that their procurement process was fair and equitable and that they obtained the most favorable prices or best quality for items totaling more than \$2.2 million, including \$262,513 in American Recovery and Reinvestment Act funds that were charged to Federal programs.

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## BACKGROUND AND OBJECTIVE

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The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing and was amended by the Quality Housing and Work Responsibility Act of 1998. The Office of Capital Improvement is under the U.S. Department of Housing and Urban Development's (HUD) Deputy Assistant Secretary for Public Housing Investments. The office administers the Public Housing Capital Fund program, which provides funds annually via a formula to public housing agencies across the country. Public housing agencies may use Capital Fund grants for development, financing, modernization, and management improvements.

The Lowell Housing Authority was founded in 1937 as part of President Franklin Delano Roosevelt's New Deal to provide safe, sanitary, and affordable housing for moderate- and low-income persons. The Authority is a municipal corporation located in Lowell, MA, and was established under chapter 121B of Massachusetts General Law.

The mission of the Authority is to provide decent, safe, and sanitary housing, thereby improving the quality of life of low-income families, elderly, and disabled individuals. The Authority's portfolio consists of 1,698 units of Federal public housing and 198 units of State public housing. The Authority also administers 1,246 Section 8 vouchers, 50 Department of Mental Health rental subsidies, 50 Lowell Rental Assistance Fund Program subsidies, and 43 Massachusetts Rental Voucher Program units.

The Authority was authorized \$14.45 million in capital funds from 2008 through 2012, and \$3.7 million in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. During the period October 1, 2008, through September 30, 2012, Authority officials used capital funds and Recovery Act funds for force account activities at 14 projects. Force account labor consisted of unionized laborers, plumbers, carpenters, and masons. Some of the force account activities included rehabilitation of units; kitchen and bathroom modernization, including handicap conversions; replacement of siding and windows; and site work, such as landscaping. The total costs were \$10.6 million, with approximately 60 percent of those costs used for unit renovations at North Common Village.

Authority officials' decision to use the force account program was based on their judgment that the scope of work was not complex or repetitive in nature. The overall benefit to the local community in employing the local labor force was also taken into consideration as an important factor when determining to use the force account program. All of the 14 force account activities have been completed except for the ongoing unit renovations at North Common Village and the bathroom and kitchen modernization at the George Flanagan Development.

Our overall audit objective was to determine whether the Authority (1) administered its force account modernization program in accordance with HUD rules and regulations, and (2) followed HUD procurement regulations and its own procurement policy.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Operate Its In-House Force Account Program In Compliance With HUD Regulations

The Lowell Housing Authority did not always operate its force account modernization program in compliance with HUD regulations. Specifically, Authority officials did not (1) perform adequate upfront planning, including preparing cost estimates and analyses; (2) maintain adequate construction records and modernization files; and (3) provide sufficient leadership and oversight. These problems occurred because Authority officials failed to establish adequate management controls for the force account program to ensure that modernization funds were used in an economical and efficient manner. As a result, work at the North Common Village development was delayed, resulting in significant vacancy losses at the development; Authority officials were unaware of the upfront costs of jobs; and it was difficult to assess the modernization work performed. Also, there were deviations in the specifications of some construction work; irregularities with purchase orders and invoices; unsupported costs; and weak controls over its inventory of fixed assets, materials, and supplies. Therefore, we considered more than \$6.7 million in capital funds and \$2.5 million in Recovery Act funds expended for the force account program to be unsupported.

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#### Inadequate Upfront Planning

There was no evidence that Authority officials performed adequate upfront planning after deciding to use the force account program. Authority officials failed to (1) adequately perform cost estimate analyses for force account activities, and (2) properly plan renovation work to mitigate vacancy loss. Therefore, the Authority failed to operate its projects in such a manner as to promote efficiency and economy.

#### Cost Estimate Analyses Not Adequately Performed

There was a lack of documentation showing how the Authority substantiated the estimated cost, number of workers to be hired, estimated timeframe for completion of work, and total scope of work to be performed or the quantity of materials needed for force account activities. Although the quality of the work performed appeared good, it was impossible to determine whether it was more cost efficient to use force account labor or a general contractor because proper initial job cost estimates were not made. A cost analysis would benefit the Authority by establishing an upfront price and timeframe for completion of the work and should be used to establish performance standards for the progress of the work. The Authority's procurement policy requires that a cost or price analysis shall be performed for all procurement actions.

Of the 14 force account activities reviewed, only 1 had a cost analysis performed. However, the analysis was incomplete and, therefore, not entirely useful in determining whether using force account labor was more cost effective than hiring a general contractor. An engineering firm hired by the Authority selected a sample of 11 units to calculate the construction labor cost estimate to complete kitchen and bath renovations at the George Flanagan development, comparing the force account labor method to the general contractor method. This estimate included salaries and benefits for force account workers only, but other important components, such as costs of materials, project manager or superintendent salaries, and workers compensation and unemployment insurance were not factored into the estimate under the force account labor method. For example, unemployment benefits were paid to force account workers whose employment had been terminated during the past three years, but these benefits were not taken into consideration when the Authority planned its payroll expenses. It is important to include all potential costs in the estimated cost for a job before the force account work starts because the Authority might find it is more economical to use a general contractor in certain instances.

#### Improperly Planned Renovation Work Resulting in an Estimated Loss of \$272,598

Authority officials did not properly plan renovation work, which resulted in vacancy losses. There were units at North Common Village that remained vacant for extended periods during major renovations. A total of 116 units remained vacant for 180 days or longer with only 11 units being off-line for less than 180 days. Authority officials stated that a 90-day cushion for renovation and occupancy was not unreasonable because at one time the Authority gutted, renovated, and had units ready for occupancy in 6 weeks. Based on current rents and allowing for a 90-day cushion to complete renovations and have a unit ready for occupancy, we estimated that the loss of revenue due to these vacancies was \$272,598 for fiscal years 2009 through 2012.<sup>1</sup> This amount represents funds that could have been used for operational activities. This problem occurred because units were taken offline before the force account staff was ready to begin working on the units. Authority officials stated that too much control and decision making was relegated to the lead carpenter, who took responsibility for providing direction to laborers and masons and deciding which units to take offline and schedule for renovations. HUD regulations dictate that a specific responsibility of any public housing authority is to operate its projects in such a manner as to promote efficiency and economy.<sup>2</sup>

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<sup>1</sup> The potential loss of revenue estimate is based on the number of days a unit was vacant, minus the 90-day cushion, multiplied by the rent per day.

<sup>2</sup> Section 4 of the annual contributions contract.

## Inadequate Construction Records and Modernization Files

The Authority had no formal modernization files and records available to show ongoing activities and what was accomplished with force account labor. For example, there were no reports showing the progress of the work, construction specifications, and weekly operational updates or meeting minutes. The work at North Common Village and the handicap conversions at Bishop Markham Village involved significant construction work and the replacement of most interior items. The work including comprehensive modernization work, electrical work, unit gutting, plumbing replacement, carpentry, flooring, and painting was performed by force account labor. We expected the same level of documentation for this type of work as would be maintained by a contractor if hired by the Authority. Therefore, Authority officials should have recorded which work items were performed in each unit and the scope or quantity of the work.

HUD states that a housing authority may undertake modernization activities using force account labor where it is cost effective and appropriate to the scope and type of physical improvements.<sup>3</sup> HUD further requires housing authorities to perform a cost or price analysis for each procurement. In addition, a housing authority should establish a system to enforce both specifications and timelines. A housing authority should also ensure that progress meetings are held on a regular basis to discuss work progress and any problems or deficiencies noted and prepare a written record of the items discussed at each meeting.<sup>4</sup> HUD also states that a housing authority must maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement.<sup>5</sup>

Because the Authority did not develop a formal planning process, including determining the cost of using the force account program, and because the Authority had no formal modernization files and records available to show ongoing activities and what was accomplished with force account labor, we considered the total costs of more than \$6.7 million (appendix C) in Federal capital funds and \$2.5 million (appendix D) in Federal American Recovery and Reinvestment Act funds attributed to the 14 force account activities covering the period October 1, 2008, to September 30, 2012, to be unsupported.

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<sup>3</sup> HUD Handbook 7485.3G 10-2(A)

<sup>4</sup> HUD Handbook 7460.8 REV 2, Sections 10-3, 11-3(D) and 11-2(B)

<sup>5</sup> Section 9(c) of the annual contributions contract



## Insufficient Leadership and Oversight

Authority officials did not provide adequate leadership and oversight of the Authority's force account activities. Specifically, some construction work was not completed as designed, purchase orders were not adequately prepared, trash removal costs were unsupported, prevailing wage rates were not followed, a possible conflict of interest existed, and inventory was not properly maintained. Therefore, Authority officials could not assure HUD that their force account program was properly administered. Details are described below.

### Unauthorized Deviation from Specifications

The lack of oversight and weak management resulted in deviation from construction specifications. The failure of the Authority's facilities coordinator for special maintenance projects to follow the architect's drawings and specifications for a kitchen and bathroom handicap conversion at the Bishop Markham project resulted in a unit not meeting the American Disabilities Act requirements. The final construction varied from the original drawings because the facilities coordinator changed certain installations in the bathroom area of one unit without consulting the architect or his immediate supervisor. Authority officials expressed concern regarding this matter because significant funding was already expended to create the handicap units and additional costs between \$6,000 and \$10,000 will be required to bring the Bishop Markam unit into full compliance with American Disabilities Act requirements. HUD stipulates that "each grantee must provide, by contract or otherwise, adequate and competent supervisory and inspection personnel to ensure work quality and progress during modernization, whether work is performed by contract or force account labor and with or without the services of an architect or engineer".<sup>6</sup>

### Inadequate Purchase Orders

Authority officials did not consistently follow established purchase order and invoice procedures relating to expenditures charged to the force account Capital Fund program. A total of 11 of 17 purchase orders reviewed had an invoice date earlier than that of the purchase order. For 13 of the 17 vendor purchases, the invoices and purchase orders lacked detail to substantiate what materials and supplies were purchased or the number of hours charged. HUD regulations require that a public housing authority maintain proper records of its small purchases and that it is crucial that the purchase order clearly specify the purchased items, services, and terms and conditions of the purchase.<sup>7</sup>

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<sup>6</sup> 24 CFR (Code of Federal Regulations) 968.140

<sup>7</sup> HUD Handbook 7460.8, paragraphs 5-2(A) and 5-9(B)

### Unsupported Trash Removal Costs

Authority officials' failure to maintain controls over the trash removal contractor used for force account work resulted in \$52,212 in unsupported overage costs. The overage charges associated with the disposal of construction waste at North Common Village consistently exceeded the base cost, and the majority of those overage charges were unsupported. For example, an invoice, dated August 11, 2009, detailed a base cost of \$1,095 for three trash containers and unexplained overage charges of \$1,344. The contractor began to consistently provide backup invoices for the overages in July of 2010, but before that, \$52,212 in overage charges was unsupported.

### Prevailing Wage Rates Not Followed

Authority officials did not enforce HUD labor standards for 10 companies providing building products and supplies. We were informed that two of the Authority's subcontractors paid salaries below the prevailing wage rate. Although Authority officials were not aware that this noncompliance had occurred, they did not request payroll documentation to substantiate hourly wages from the 10 companies. HUD requires public housing agencies to monitor enforcement of labor standards for the payment of prevailing wage rates in all contracts over \$2,000 involving Federal funds.<sup>8</sup> Policies regarding prevailing wage rates are also included in written contracts between public housing agencies and contractors, but Authority officials failed to ensure that contracts were in place for the 10 companies in question (See finding 2).

### Possible Conflict of Interest

The son of the Authority's facilities coordinator was hired by two of the Authority's subcontractors. Although the executive director took immediate action when informed about this conflict-of-interest violation, Authority officials failed to ensure that contractors were fully informed regarding conflict-of-interest rules and regulations. Conflict-of-interest rules and regulations are thoroughly addressed in contracts between public housing agencies and contractors; however, as previously noted in our discussion of prevailing wage rates, contracts were not in place.

### Inadequate Inventory Controls

Authority officials did not maintain an adequate inventory system to allow proper accountability for office equipment, appliances, materials, and supplies. There

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<sup>8</sup> HUD Handbook 1344.1, Labor Standards Enforcement, section 8-8

were inconsistencies between the Authority's practices and its written policies and procedures, and also between the Authority's practices and HUD requirements<sup>9</sup>. The Authority policy dictated that when physical counts were complete, a reconciliation of variances between the inventory values and the trial balances should be performed. The latest inventory count, performed on September 30, 2011, showed a variance of \$53,270, and there was no evidence that a reconciliation had been performed. We attempted to locate a sample of washers and dryers, stoves, and refrigerators that should have been easily tracked to units. However, an appliance inventory listing for appliances located in the units did not exist and was, therefore, not included in any physical count. In addition, we requested an inventory listing of the Authority's computers, but an updated inventory listing was not available. This deficiency showed that Authority officials did not have procedures to keep an inventory for computers. Due to the inadequate inventory records, the Authority had no assurance that important assets were properly used or had not been misappropriated. We considered the \$53,270 in inventory variance to be unsupported.

## Conclusion

Authority officials did not always operate their force account modernization program in compliance with HUD regulations. Specifically, a lack of adequate planning delayed completion of force account activities and caused significant vacancy losses at North Common Village; cost estimates and analyses were not prepared before work was started, and the Authority's force account activities were not supported with construction records and modernization files, making it difficult to assess the modernization work performed. In addition, poor leadership and oversight led to deviations from construction specifications and contributed to irregularities with purchase orders, invoices, trash removal services, labor standards, conflict of interest issues, and inventory controls. We attribute these deficiencies to Authority officials' failure to establish adequate management controls for the force account program to ensure that modernization funds were used in an economical and efficient manner.

## Recommendations

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

- 1A. Develop policies and procedures to adequately plan force account program activities in accordance with HUD regulations, including substantiating the cost effectiveness of using force account labor by performing cost estimate analyses, which include salaries and applicable benefits of force

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<sup>9</sup> 24 CFR 84.34(3)

account workers, project managers, and superintendents and the cost of materials and supplies.

- 1B. Conduct an independent cost analysis for each of the 14 force account activities for which the Authority officials failed to perform cost estimates and maintain construction records and modernization files to ensure that \$6,738,796 in capital funds charged to federal programs was reasonable and supported. For any amounts not reasonable and supported, HUD should require Authority officials to reimburse the program from non-Federal funds.
- 1C. Conduct an independent cost analysis for each of the 14 force account activities for which the Authority officials failed to perform cost estimates and maintain construction records and modernization files to ensure that \$2,527,524 in Recovery Act funds charged to federal programs was reasonable and supported. For any unreasonable amounts, HUD should require Authority officials to reimburse the program from non-Federal funds.
- 1D. Establish and implement policies and procedures to properly schedule force account activities to prevent future losses in revenue, such as the \$272,598 loss in revenue that occurred at North Common Village, attributed to unnecessary and extended vacancies.
- 1E. Establish procedures to ensure that adequate records are maintained for modernization activities, including the detailed specifications of work performed at the developments.
- 1F. Strengthen monitoring controls over construction projects to ensure the quality and progress of modernization work.
- 1G. Develop controls to ensure that (1) purchase orders are prepared before expenditures are made, (2) purchase orders and invoices clearly specify service(s) needed, and (3) written contracts are properly executed for each procurement.
- 1H. Provide documentation to support the \$52,212 in overage charges associated with the disposal of construction waste at North Common Village. If adequate support cannot be provided these charges should be reimbursed from non-Federal funds.
- 1I. Strengthen monitoring controls over the enforcement of labor standards to ensure that prevailing wage rates are paid in relation to all contracts over \$2,000 involving Federal funds.

- 1J. Ensure that contractors are fully informed regarding conflict-of-interest rules and regulations.
- 1K. Reconcile the \$53,270 variance from the September 30, 2011, inventory count and support the reconciliation. Any unsupported costs determined to be ineligible should be reimbursed from non-Federal funds.
- 1L. Develop procedures to ensure that when the physical inventory of materials and supplies is complete, a reconciliation of variances between the inventory values and the trial balances is performed and perform periodic inventory counts for appliances located in units and for office computers.

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## Finding 2: The Authority Did Not Always Follow Proper Procurement Procedures

Contrary to regulations, Authority officials did not always follow proper procurement practices and procedures. The types of deficiencies noted included that (1) procurements were awarded without full and open competition, (2) independent cost estimates were not supported, (3) requests for proposals were not prepared, (4) written contracts were not maintained, and (5) change orders were not approved in a timely manner. These conditions occurred because Authority officials did not implement effective management controls over the procurement process. As a result, officials could not assure HUD that their procurement process was fair and equitable and that they obtained the most favorable prices or best quality for items totaling more than \$1.9 million in capital funds, and \$262,513 in Recovery Act funds that were charged to Federal programs.

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### **Procurements Awarded Without Competition**

Authority officials could not provide documentation to substantiate that the Authority solicited price or rate quotations from an adequate number of sources when procuring building products and supplies. For the period October 1, 2008, through September 30, 2012, Authority officials paid more than \$1.9 million in capital funds (appendix E) and \$262,513 in Recovery Act funds (appendix F) to 10 vendors for building products and supplies. However, they did not adequately document that procurement procedures were followed allowing full and open competition. Regulations require that Authority officials conduct all procurement in a manner to provide full and open competition.<sup>10</sup> Also, Authority officials must maintain records to show the history of procurement<sup>11</sup> and solicit price quotations from an adequate number of qualified sources.<sup>12</sup> In addition, the Authority's procurement policy required soliciting price quotations to not only achieve the most reasonable price, but also to provide increased fair access to the economic opportunities created through its procurement process.

### **Independent Cost Estimates Were Not Supported**

Authority officials did not provide adequate documentation to support that independent cost estimates were performed for five of the eight construction contracts reviewed. These contracts included replacement of windows, roof

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<sup>10</sup> 24 CFR 85.36(c)(1)

<sup>11</sup> 24 CFR 85.36(b)(9)

<sup>12</sup> 24 CFR 85.36(d)(1)

replacement and repairs, installation of heating and hot water systems, and a security gate upgrade. An independent cost estimate prepared before the receipt of bids or proposals ensures that the costs are reasonable. HUD regulations require that a cost or price analysis be performed in connection with every procurement action before bids or proposals are received.<sup>13</sup> In addition, the Authority's policy dictated that an independent cost estimate be prepared before each solicitation.

### **Requests for Proposals Were Not Prepared**

Authority officials failed to prepare requests for proposals while procuring four architect/engineering firms; thus, these firms were not procured in accordance with HUD's procurement procedures. As a result, we considered \$85,092 in capital funds and \$13,800 in Recovery Act funds charged to federal programs as unsupported for these four firms. HUD regulations dictate that when a procurement is made by competitive proposal, the following requirements apply: "(i) requests for proposals will be publicized and identify all evaluation factors and their importance; (ii) proposals will be solicited from an adequate number of qualified sources; and, (iii) a method must exist for conducting technical evaluations of the proposals received and for selecting awardees."<sup>14</sup>

### **Written Contracts Not Obtained**

Authority officials failed to maintain written contracts or agreements with the 10 companies providing building products and supplies. Without a contract, it was not possible to determine whether the contractor's invoices were properly submitted or whether the costs incurred by the Authority were reasonable. A contract not only serves to support the agreed-upon cost, but also defines services expected and describes the responsibilities of each party. Authority officials also must maintain source documents and files that support the financial transactions recorded in the books of account and provide an adequate audit trail. These documents include such items as contracts, which were not maintained.<sup>15</sup>

### **Change Orders Not Approved in a Timely Manner**

Authority officials had not established a change order policy, and change orders were not approved in a timely manner for four construction projects. The change orders for the four projects totaled \$72,748. These projects included the

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<sup>13</sup> 24 CFR 85.36(f)

<sup>14</sup> 24 CFR 85.36(d)(3)

<sup>15</sup> Public and Indian Housing Low-Rent Technical Accounting Guidebook 7510.1, section II(8)

replacement of an emergency generator, roof replacement and repairs, and landscaping upgrades.

The replacement of an emergency generator at the Francis Gatehouse Mill Development required one change in the amount of \$6,456 to install wiring and conduits, which was incorrectly marked on the original panel schedules. This change order was not approved in a timely manner since it was approved by Authority officials after the contract completion date.

The roof replacement at Bishop Markham Village required two change orders totaling \$35,492. Change order one in the amount of \$7,949 was to install a temporary rubber roof because the existing concrete sub roofing was causing water damage and there was an approaching storm. Change order two was to address the damaged concrete sub roofing at a cost of \$27,543. These two change orders were not approved in a timely manner since they were approved by Authority officials after the contract completion date. In addition, roof repair work at North Common Village required a change order in the amount of \$1,800 to replace the existing vent pipe flashing for 18 plumbing vents, and this change order also was not approved in a timely manner.

The unforeseen landscape upgrades at North Common Village required two change orders and increased the contract price by \$29,000. Change order one for landscaping upgrades at North Common Village added 21 calendar days and was approved by the contractor and architect on December 8, 2009, but was not approved by Authority officials until January 13, 2010, which was after the contract completion date of December 16, 2009, and more than 30 days after December 8, 2009. Contrary to the General Conditions for Construction Contracts, the Authority did not act on change order one within 30 days, and the contractor went ahead with the work before approval from the contracting officer<sup>16</sup>. In addition, change order two increased the time by 132 days. The adjusted completion date of the contract was January 6, 2010, and change order two extended the completion date until May 18, 2010. However, change order two was not approved by the contractor and the architect until June 4, 2010, and was not approved by Authority officials until June 16, 2010; thus, all of the approvals were well after the adjusted contract completion date of January 6, 2010. Accordingly, we considered \$37,256 in capital funds and \$35,492 in Recovery Act funds paid for change orders to be unsupported costs.

## Conclusion

Authority officials did not always follow proper procurement procedures. Specifically, Authority officials did not (1) award procurements with full and open competition, (2) provide adequate documentation to support that independent cost estimates were performed, (3) prepare requests for proposals,

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<sup>16</sup> General Conditions for Construction Contracts, form HUD-5370, clause 29(h)



(4) maintain written contracts, and (5) approve change orders in a timely manner. As a result, there was no assurance that the Authority's procurement process was fair and equitable and that it obtained the most favorable prices or best quality for items totaling more than \$1.9 million, including \$262,513 in Recovery Act funds, which were charged to Federal programs. These violations occurred because Authority officials did not implement effective management controls over the Authority's procurement process.

## Recommendations

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

- 2A. Develop and implement procedures to ensure that the Authority documents that independent cost estimates are performed, solicits price quotes or bids, publicizes requests for proposals, and maintains sufficient documentation supporting the basis for contract awards.
- 2B. Develop and implement procedures to ensure that written contracts are properly executed.
- 2C. Develop and implement a change order policy in compliance with Federal procurement requirements.
- 2D. Conduct a review to determine whether the \$1,959,594 in procurement costs charged to the Federal capital fund program was reasonable and supported. Any costs determined to be unreasonable or ineligible should be reimbursed from non-Federal funds to HUD or the U.S. Treasury in accordance with the appropriate capital fund regulations.
- 2E. Conduct a review to determine whether the \$262,513 in procurement costs charged to Federal Recovery Act program was reasonable and supported. Any costs determined to be unreasonable or ineligible should be reimbursed from non-Federal funds to HUD or the U.S. Treasury in accordance with the appropriate capital fund regulations.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work at the Authority's main office located at 350 Moody Street, Lowell, MA, from October 2012 to April 2013. Our audit generally covered the period October 1, 2009, to September 30, 2012, and was extended when necessary to meet our objective. We relied in part on computer-processed data primarily for obtaining background information on the Authority's expenditure of capital funds. We performed a minimal level of testing and found the data to be adequate for our purposes.

To accomplish our audit objective, we

- Reviewed applicable laws, regulations, HUD handbooks, HUD notices, and the Authority's policies and procedures.
- Conducted discussions with Authority officials to gain an understanding of the Authority's financial structure, procurement practices, Capital Fund program, and force account process.
- Reviewed Real Estate Assessment Center inspection reports to identify physical deficiencies that may require an increased need for capital expenditures.
- Evaluated internal controls and reviewed computer controls to identify potential weaknesses related to our objective.
- Reviewed records of the Authority's board minutes, independent public auditor's reports, and written HUD monitoring reviews of the Authority's Capital Fund program.
- Evaluated the Authority's allocation plan to determine whether the allocation of costs between HUD and State programs was reasonable.
- Reviewed credit card charges for assurance that charges were reasonable, eligible, and adequately supported.
- Determined whether the Authority generally complied with its 5-year action plans and expended funds in accordance with its annual statements.
- Determined whether the Authority's identification of modernization needs was consistent with significant facts and data pertaining to the physical and operational condition of the developments or management and operations of the Authority.
- Reviewed the Authority's practices for handling inventory of nonexpendable equipment, materials, and supplies to determine whether the Authority managed and controlled its inventory effectively and efficiently.

- Ensured that the Authority obtained building permits and performed inspections as required by the Massachusetts Building Code and determined whether there was improper handling of asbestos and lead paint.
- Evaluated the Authority's procurement practices by selecting for review a sample of five procurements (totaling more than \$1.7 million) based on high dollar amounts from a universe of 25 procurements (totaling more than \$3 million) for the period October 1, 2008 to September 30, 2012.
- We selected a sample of 16 units for inspection to ensure the quality and consistency of the force account work. Using a random number generator, we selected 9 units to inspect from a universe of 132 units renovated at North Common Village and selected 4 units to inspect from a universe of 24 units renovated at the George Flanagan development. We decided to select a nonstatistical sample of three of the total universe of six handicapped units renovated at Bishop Markham Village. The nonstatistical sample represented a sample of units selected without conscious bias.
- We also selected a sample of 17 cost items (totaling \$126,027) from a universe 433 cost items (totaling \$643,664), representing 4 vendors that the Authority reported were not following proper procurement procedures. The selection was based on the largest cost items for four vendors providing materials, supplies, and services for force account activities for the period October 1, 2008, to September 30, 2012. We evaluated the cost items to determine whether charges were properly supported with purchase orders, invoices, and checks and whether the Authority executed contracts and solicited price quotes and bids.
- In addition, we selected a sample of 33 cost items (totaling \$189,440) from a universe of 3,802 cost items (totaling \$1,601,921) representing an additional 6 vendors that the Authority reported were not following proper procurement procedures. The selection was based on the largest cost items for six vendors providing materials, supplies, and services for force account activities for the period October 1, 2008, to September 30, 2012. We evaluated the cost items to determine whether charges were properly supported with purchase orders, invoices, and checks and whether the Authority executed contracts and solicited price quotes and bids.
- For review of salaries, we decided to concentrate on Recovery Act funds due to the attention the Recovery Act receives from HUD's Office of Inspector General (OIG) and the 2008 program year funds because these were the oldest funds identified in the financial records covering the period October 1, 2008, to September 30, 2012. We identified the salaries charged to completed force account activities for Recovery Act and 2008 program funds. Of the eight completed activities, we focused on the three activities with the largest salaries to determine whether the salaries were adequately supported. We selected a sample of 6 weekly payrolls, representing salaries totaling \$58,187, from a universe of 161 weekly payrolls, representing salaries totaling \$870,218. The sample selection was based on the largest two weekly payrolls for each of the three force account activities for the period October 1, 2008, to September 30, 2012.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that funds are safeguarded against waste, loss, and misuse.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Authority officials did not have adequate controls over program operations when they failed to develop a formal planning process, including preparing upfront cost estimates for the Authority's force account activities, and did not maintain adequate construction or modernization records and files regarding its force account activities. In addition, Authority officials' lack of oversight of force account labor resulted in deviation from field specifications (see finding 1).
- Authority officials did not have adequate controls over compliance with laws and regulations when they failed to follow purchase order procedures, prevailing wage rates, conflict-of-interest regulations, and Federal procurement regulations (see findings 1 & 2).
- Authority officials did not have adequate controls over safeguarding resources because they charged unsupported costs to Federal programs, awarded procurements without competition, and failed to maintain an adequate inventory system to allow for proper accountability of office equipment, appliances, materials, and supplies (see findings 1 & 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Unsupported 1/
1B	\$6,738,796
1C	\$2,527,524
1H	\$52,212
1K	\$53,270
2D	\$1,959,594
2E	\$262,513
Total	\$11,593,909

- 1/ 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.

**APPENDIX B**

**AUDITEE COMMENTS AND OIG'S EVALUATION**

**Ref to OIG Evaluation**

**Auditee Comments**

**Lowell Housing Authority  
350 Moody Street, PO Box 60  
Lowell, Massachusetts 018353-0060**

**August 7, 2013**

**Mr. Edgar Moore  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
New York-New Jersey Office  
26 Federal Plaza- Room 3430  
New York, NY 10278-0068**

**Dear Mr. Moore:**

**Thank you for sending a copy of the Office of Inspector General for Audit's draft audit report, and for meeting with us on July 31, 2013 to review its contents. We appreciate the time and effort that your staff has devoted to developing the draft report. We thank you for the opportunity to provide a written response.**

**To be clear, the Lowell Housing Authority concurs with a number of the items contained in the report. These include issues our agency identified through its own audit and oversight procedures prior to this audit engagement. While the Lowell Housing Authority acknowledges the two (2) audit findings, we will provide documentation and evidence both in this response and subsequently to our HUD field office that demonstrates we have acted on many of the audit issues. We have provided, as an attachment, two relatively brief responses, one for each of the two findings in the report. We believe this information will validate that the Board of Commissioners and Executive staff have exercised leadership and taken the necessary steps to address modernization and procurement issues.**

**This response is written from the perspective that a number of events occurred at the Lowell Housing Authority during the four-year audit period of 2008 through 2012. We feel it is necessary to understand this context in assessing the items mentioned and the measures instituted by the LHA**



prior to the audit report. In retrospect, more attention should have been focused on systems rather than relying on the knowledge and experience of individuals in leadership positions whose credentials would convey possession of the experience and judgment required while overseeing the activities in question, but who proceeded with too much informality and degree of freedom. It should be noted that former personnel believed they were acting in the best interest of the LHA and that no fraudulent use of funds has been alleged or found.

In the Report a number of recommendations are listed starting on page 9 of the document. Some of the issues that underlay these recommendations have already been addressed in manners that will avoid their repetition. We anticipate that even though done on a post audit basis, the LHA will be able to confirm that choices made and the value obtained through the use of a force account approach did maximize overall value and were more cost effective than a formal bidding process that relied on third party general contractors with their mark-ups and overhead factors. Going forward, should we determine to use force account methods again to stretch our limited resources or to be responsive to a “lumpy” pipeline of work such as that created by relying on unit vacancies rather than relocation with all its added costs and complexities, we have moved towards an overall system that will allow us to connect the dots from the first decision to the last action. This would not be just to protect the agency from outside criticism, an important consideration at all times, but more so for our own benefit as frontline decision-makers.

These measures demonstrate our leadership and commitment to improving LHA procurement and modernization practices. We are confident that the LHA will adequately address and substantiate unsupported costs that the audit report notes. We look forward to working with HUD to ensure that the LHA operates at the highest level of efficiency and regulatory compliance with matters of procurement and modernization.

Sincerely,

*// SIGNED //*

Dr. Gary K. Wallace

Executive Director

**Attachment 1**

**Lowell Housing Authority Response to Audit Finding 1 – The Authority Did Not Always Operate Its in-house Force Account Program in Compliance with HUD Regulations.**

This finding consisted of three subparts:

Inadequate Upfront Planning

Inadequate Construction Records and Modernization Files

Insufficient Leadership and Oversight

In 2008, the Lowell Housing Authority initiated a major renovation at the North Common Village Development, the oldest public housing development in the Commonwealth of Massachusetts using amounts from our Capital Fund Program (CFP) Grants with a total value of \$6,676,931.

The scope of work included a complete renovation of the units in three story buildings within the development. The goal of this project was to remediate mold issues, improve ventilation, and modernize plumbing and electrical systems to improve the quality of life of our residents. Other major projects performed during the period of the Audit included replacement of all windows at North Common Village and Bishop Markham Village, exterior siding replacement at the George Flanagan Development and extensive site improvements and the creation of additional handicap accessible units at various developments. This work was funded by both Capital Fund Program Grants and the American Reinvestment and Recovery Act (ARRA) modernization Grant.

The key issue which seems to underlay the three major components of this finding is the lack of suitable documentation to allow the Auditors to determine value of the choices made by the LHA when compared to other choices.

There is no question that in many locations including Section 9C of the current version of the Consolidated Annual Contribution Contract (form HUD 53012A) it is stated that an “HA shall maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement”. However, the recordkeeping requirements for different

**Comment 1**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 2**

activities vary in terms of the nature of the activity and specific HUD guidance.

In the narrative for the sub-finding of inadequate construction and records and modernization files, the Finding cites HUD Handbook 7417.1, which is the Development Handbook. This Handbook, first published in 1980, has been canceled by HUD and is not even carried as guidance or for reference in HUDCLIPS, which is the HUD maintained database for program reference materials including current regulations, Handbooks, Guidebooks, Administrative Notices and current OMB cleared forms. The Development handbook pertains to new construction or acquisition rehabilitation of units being brought into the program for the first time. The Development handbook does not nor was intended to cover modernization activities or extraordinary maintenance activities. Development is not modernization, and we would never use a force account approach for development.

**Comment 3**

We do not dispute that the force account program should have been initiated with fully formed documentation systems so that an exact scope could be documented for each unit or project assigned to the force account program. However, the assertion that all the activities funded out of modernization sources required documents “similar to those for new construction” as well as full formal written specifications broken down into trade categories, while true of new construction or substantial rehab of units being acquired under 24 CFR 941, these requirements are not true of a force account program.

**Comment 4**

This is not to say that development of a scope of work, a cost estimate and full documentation of labor, labor payments and materials expended on each unit is not necessary and appropriate. The LHA should have been more complete in its recordkeeping in the time frame covered by the Audit, but force account is a method to allow an HA to serve as its own general contractor for “vanilla” or standard physical renewal projects – standard in that no major structural modifications were required and existing items were replaced with new but essentially identical items. Maintenance staff members commonly replace unit elements such as kitchens and bathrooms in full or in part as part of their standard duties. They also, within their skill sets, do extensive renovations when merited including wall board replacement, flooring replacement, siding replacement and window replacement. Many large HAs have licensed maintenance staff that can perform electrical and plumbing work on an extraordinary maintenance basis without use of outside contractors. This work is often done without architectural specifications and drawings if the activity involves replacing existing design elements with new but essentially

**Comment 5**

Identical elements. Force account is essentially extraordinary maintenance with staff levels supplemented by project specific additional staff.

Through the Force Account labor program, the LHA sought to achieve the dual goals of maximizing the ability to target dollars to materials and direct trades labor and to minimize resources lost to mark-ups such as fees and overhead. Inspections performed by architectural and engineering firms and the receipt of certificates of occupancy from the City of Lowell Division of Inspectional Services, verified that the work was of good quality and code compliant.

We recognize that from the top down more emphasis should have been placed on the development of better formal internal controls to allow the Executive Office to evaluate that the intended goals of using force account were being met and to be able to justify the use of force account to 3<sup>rd</sup> parties such as HUD's auditors and others, but the flow of renovated units at North Common Village and the other projects that were ongoing at the same time were providing proven results. The downside of being your own general contractor is that when errors are made, they must be absorbed internally. Nevertheless, the LHA is ready to follow the recommendations on page 9 of the Audit Report and to work closely with the local Field Office to substantiate and support the value of the work done through the use of Force Account.

**Lowell Housing Authority Response to Audit Finding 2 –  
The Authority Did Not Always Follow Proper Procurement Procedures**

This finding consisted of five subparts:

- Procurement Awarded Without Competition
- Independent Cost Estimates Were Not Supported
- Requests for Proposal Were Not Prepared
- Written Contracts Were Not Prepared
- Change Orders Not Approved in a Timely Manner

**Comment 3**

Our response to Finding #1 identifies that an expectation that all modernization should be subject to full development of specification and bid documents by 3<sup>rd</sup> parties is not always relevant to how modernization work is done by HAs nor required for the modernization program. This is instantiated by the information in Chapter 10 of 7485.3G, the Capital Grant Program Guidebook in which Force Account is listed as an acceptable method for use of modernization funds. A requirement for full development of bid documents is not found in the Guidebook in

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 6**

terms of a requirement for the use of force account. This does not mean that upfront planning and ongoing determinations of the cost effectiveness of force account rather than full invitation for Bid (IFB) was not pertinent and was certainly a weakness at the onset of the review period back in 2008 when the availability of ARRA resources required a very fast process for obligation and expenditures.

**Comment 7**

We add to the point that force account documentation did not have to rise to the level of IFB documentation with a second point that pertains to HUD's small purchase threshold of \$100,000 as described in 24 CFR 85.36(d). Small purchases, as defined by HUD, do not require formal requests for proposals or invitation for bid. The Authority is also subject to the more stringent requirements of Massachusetts, specifically MGL 30B, where three verbal quotes for purchases up to \$25,000 is a permitted practice. There are at least four items listed in Appendix C that fall below the \$25,000 threshold just by the total shown, as well as two of the four A/E contracts referenced in Appendix E and F.

**Comment 8**

There are certainly individual activities that exceed the small purchase threshold listed in Appendix C. Small purchases do not require formal contracts. They can be documented using a purchase order format. We raise these points because we find that the report narrative does not seem to acknowledge that there are streamlined and less burdensome procurement methods allowed under federal regulation than promoted in the Audit Report. In addition, the presentation of the dollar amounts listed in Appendix C does not provide a clear understanding that the events over the four year period covered by the Audit Report have in most cases been rolled up into the large sums shown. The actual purchases are a series of smaller procurements, most under the \$25,000 level. This is certainly the case for the unit renovations at North Common Village, which is shown as a lump sum in Appendix C of over \$6.7M. The procurement needs arose as units became vacant on an unpredictable and random basis over time.

**Comment 9**

Despite the above comments, the LHA did recognize starting in 2009 that improvements were needed in the overall procurement process, some of which were systems and some of which were having the correct staff skills and attitude in the correct locations within the pertinent line departments. HUD's asset management systems and guidance promote decision making on purchases and expenditures to be as decentralized as possible. Decentralization creates internal control challenges. Within this same year, internal control issues related to procurement and force account were identified by the Executive Director, Assistant Executive Director and the

**Comment 10**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 10**

Chief Financial Officer. At that time, a comprehensive review was undertaken and followed by corrective action plans to provide better oversight, improve communication and establish formalized practices and procedures to ensure compliance.

Beginning in July, 2010, a Best Practice Audit was performed by the Chief Financial Officer and resulted in a proposal to completely overhaul then existing procurement and modernization practices and procedures. As a result of this study and recommendation, the Executive Director and Assistant Executive Director adopted a key proposal and created a new position, Auditor and Compliance Officer, to test administrative systems for weaknesses, establish policy, internal controls and implement improvements.

**Comment 10**

Also in 2010, the Executive Director and Board of Commissioners established agency goals to train staff on State and Federal procurement laws. This included training and certification through the Massachusetts Office of the Inspector General, Massachusetts Operational Services Division and advanced HUD procurement and contracting training offered by industry experts. The Authority hosted a HUD procurement seminar that was attended by key LHA staff as well as other Public Housing Authorities from various states.

**Comment 10**

In early 2011, the Authority began its next level of refinement which included a reorganization of positions and responsibilities within the procurement and facilities departments that was triggered by the departures of departmental leaders in key areas that relied heavily on procurement policy and procedures, materials management and modernization administration. Key positions that were vacated included the Deputy Director of Facilities and Capital Planning, the Purchasing and Inventory Officer and the Executive Secretary of Facilities. Additionally, duties of other Facilities Departmental staff were redistributed to improve segregation of duties and internal controls.

**Comment 10**

At the conclusion of the data collection period for this Audit Report, the Authority hired a highly experienced, certified public procurement official with a law degree to assume the daily duties of Chief Procurement Officer. The Authority also created a new position of Assistant Director of Capital Planning and hired a professional who possesses a valid construction supervisor's license and holds a degree in construction management.

Our team of newly hired and credentialed professionals in combination with our organizational realignment of the procurement and construction management functions addresses the weaknesses that his Audit Report documented in our procurement and

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 10**

modernization departments. We are ready to implement additional improvements to existing policy and procedures to fulfill the recommendations offered in the Audit Report.

We believe that the actions described above demonstrate that our leadership is responsive to our challenging and changing operating environment and our commitment to improving LHA procurement and modernization procedures. We are confident that the LHA will working in tandem with the local Field Office Staff address and substantiate the unsupported costs documented in this Audit Report.

## Evaluation of Auditee Comments

- Comment 1** Authority officials believe that their key issue is the lack of adequate documentation. However, while there was inadequate documentation, we also found inadequate planning, construction work that was not completed as designed, lost revenue due to extended vacancies, purchase orders dated after invoices, unsupported costs, and inadequate inventory records.
- Comment 2** Based on the Authority's concerns, we adjusted the report to reflect the criteria at handbook 7485.3G and 7460.8.
- Comment 3** Authority officials interpret the finding as saying that all activities funded with modernization funds should be documented similar to those in new construction, which they believe is not true for the force account program. However, the renovations at North Common Village and the handicap conversions at Bishop Markham Village involved significant construction work including comprehensive modernization work, electrical work, unit gutting, plumbing replacement, carpentry, flooring, and painting. Regulations require the same level of documentation for this type of work as would be maintained by any contractor hired by the Authority. Our audit determined that the Authority lacked records that showed what was accomplished with force account labor.
- Comment 4** Authority officials acknowledge that their recordkeeping for force account activities should have been better, but they believe that they conducted standard repair work that did not require detailed specifications. Nevertheless, as shown in comment 3 above, the work was extensive and required better documentation.
- Comment 5** Authority officials acknowledge that they should have developed better internal controls and they are ready to begin working with the HUD field office and implement our recommendations.
- Comment 6** Authority officials state that their lack of upfront planning and failure to determine the cost effectiveness of force account was a weakness back in 2008. Our audit showed that a lack of upfront planning and a failure to determine the cost effectiveness of force account were prevalent from 2008 through 2012.
- Comment 7** Authority officials state that the Capital Grant Program guidebook (7485.3G) does not mention the development of bid documents for force account activity. They further state that HUD's small purchase threshold (\$100,000) under 24 CFR 85.36 (d) does not require bidding and that in some cases the more stringent Massachusetts law (MGL 30B) applies to purchases under \$25,000, requiring only verbal quotes; thus they cite 4 cases that were below \$25,000. Although 24 CFR 85.36 may not require bidding for force account labor, the regulations are applicable to the building products and supplies acquired for force account. The Authority paid three companies in excess of \$100,000 for building products and supplies and another five companies in excess of \$200,000. In fact, the Authority paid one of the five companies over \$630,000 without solicitation of bids or price



quotations. Authority officials could not show the basis for selecting this company or any of the other building suppliers. HUD also requires that housing authorities follow applicable State or local laws on procurement if stricter than Federal standards.<sup>17</sup> Massachusetts requires that the award of procurements in the amount of \$25,000 or more shall conform to the competitive bidding procedures. Regarding the amounts listed on the appendixes that are below \$25,000, Massachusetts requires quotes from three vendors, orally or in writing. A housing authority is required to record the names and addresses of all persons contacted for quotes, names of all persons that submitted quotes, and the date and amount of each quote.<sup>18</sup> The Authority failed to comply with these requirements.

**Comment 8** We acknowledge that the amounts reflected in Appendixes E and F include a series of small procurements. However, as we explained in Comment 7 regarding procurements under \$25,000, Massachusetts requires quotes from three vendors, orally or in writing. In addition, Massachusetts requires that a housing authority record the following: (1) names and addresses of all persons contacted for quotes, (2) names of all persons that submitted quotes, and (3) the date and amount of each quote. 24 Code of Regulations (CFR) 85.36 on procurement states that, if small procurements are used, price or rate quotations will be obtained from an adequate number of qualified sources. In addition, we emphasize that the Authority's practice of purchasing building materials and supplies on an as needed basis did not ensure that they were obtaining the most economical price. 24 CFR 85.36 states that to foster greater economy and efficiency, grantees and sub grantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services. Authority officials did not provide OIG any evidence that they adhered to Massachusetts requirements or HUD regulations.

**Comment 9** Authority officials state that the total purchases in the report represent purchases, most under the \$25,000 level, incurred over a four year period. However, as noted in comments 7 and 8, Authority officials failed to follow HUD regulations regarding purchases under \$25,000. Also, the Authority's pattern of purchasing building materials and supplies from many companies on an as needed basis is generally not the most economical practice.

**Comment 10** We acknowledge Authority officials efforts to address the weaknesses identified and appreciate their willingness to fulfill the recommendations of the audit report.

<sup>17</sup> This is found in HUD Handbook 7460.8 REV 2, Procurement Handbook for Public Housing Agencies, Chapter 1, Section 1.3

<sup>18</sup> This is found in Chapter 30B of the Massachusetts General Laws, Uniform Procurement Act,

## Appendix C

### COST OF LABOR AND MATERIALS FOR FORCE ACCOUNT CAPITAL FUNDS

#	Development	Description of work	Status	Total cost
1	North Common Village	Dwelling unit rehabilitation	Ongoing	\$6,593,421
2	Bishop Markham Village Development and North Common Village Development	Window replacement	Completed	\$200,575
3	George Flanagan Development	Building siding	Completed	\$91,368
4	George Flanagan Development	Kitchens and baths	Ongoing	\$357,721
5	Bishop Markham Village Development	Kitchens and baths – handicap	Completed	\$329,661
6	North Common Village	Site – walks, drives, railing, landscaping	Completed	\$83,510
7	Francis Gatehouse	Repoint brick	Completed	\$52,968
8	Father Norton Manor	Exterior painting	Completed	\$51,985
9	George Flanagan Development	Site – walks, drives, railing, landscaping	Completed	\$43,285
10	Bishop Markham Village Development	Site – walks, drives, railing, landscaping	Completed	\$24,640
11	Francis Gatehouse	Kitchens and baths – handicap	Completed	\$19,271
12	Dewey Archambault Towers	Site – walks, drives, railing, landscaping	Completed	\$15,694
13	Francis Gatehouse	Site – walks, drives, railing, landscaping	Completed	\$706
	Less			<b>(\$1,126,009)<sup>19</sup></b>
			<b>Total cost</b>	<b>\$6,738,796</b>

<sup>19</sup> The \$1,126,009 amount represents a portion of the unsupported costs reported in finding 2 because the Authority failed to solicit price quotations and implement contracts with these nine vendors providing building products and supplies. Therefore, to avoid double-counting, we have reduced the total cost amount of \$7,864,805 by \$1,126,009, leaving \$6,738,796 as questioned costs in finding 1 based on the Authority's failure to operate its force account program in compliance with HUD regulations.

## Appendix D

### COST OF LABOR AND MATERIALS FOR FORCE ACCOUNT RECOVERY ACT FUNDS

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#	Development	Description of work	Status	Total cost
1	Bishop Markham Village Development	Window replacement	Completed	\$1,125,640
2	North Common Village Development	Window replacement	Completed	\$381,795
3	George Flanagan Development	Building siding	Completed	\$1,140,310
14	Father Morrissette	Painting	Completed	\$93,000 <sup>20</sup>
				( <b>\$213,221</b> ) <sup>21</sup>
			<b>Total cost</b>	<b>\$2,527,524</b>

<sup>20</sup> The above activities in this appendix overlap with the activities in Appendix C, except for activity 14. This activity represents the painting work at Father Morrissette that was paid for exclusively with ARRA funds and therefore, is not shown on appendix C. Thus, the 13 activities in Appendix C plus activity 14 in Appendix D total the 14 force account activities as discussed in the finding.

<sup>21</sup> The \$213,221 amount represents a portion of the unsupported costs reported in finding 2 because Authority officials failed to solicit price quotations and implement contracts with these nine vendors providing building products and supplies. Therefore, to avoid double-counting, we have reduced the total cost amount of \$2,740,745 by \$213,221, leaving \$2,527,524 as questioned costs in finding 1 based on Authority official's failure to operate its force account program in compliance with HUD regulations.

## Appendix E

### UNSUPPORTED PROCUREMENT COSTS CAPITAL FUNDS

Number	Entity or project	Unsupported costs
<b>Building products and supply vendors</b>		
1	Frank McCartin, Inc.	\$630,796
2	Diamond Vic's Plumbing	\$223,314
3	MacDonald Cabinet & Countertop	\$213,123
4	Harvey Industries	\$12,368
5	Dracut Appliance Center	\$202,958
6	West Tewksbury Contractors	\$174,532
7	F.W. Webb	\$162,286
8	Marc L'Heureux	\$153,933
9	Burl Fence Company	\$68,100
10	Harmon's Paint	\$48,049
<b>Subtotal 10 vendors</b>		<b>\$1,889,459</b>
<b>Architectural design firms</b>		
1	Weston and Sampson	\$47,100
2	Avid Engineers	\$27,817
3	Nagle Engineering Inc.	\$10,174
<b>Subtotal three architectural design firms</b>		<b>\$85,091</b>
<b>Construction change orders</b>		
1	Landscape upgrades at North Common Village	\$29,000
2	Replacement of the emergency generator at the Francis Gatehouse Mill Development	\$6,456
3	North Common Village roof repair – phase 3	\$1,800
<b>Subtotal three change orders</b>		<b>\$37,256</b>
		<b>(52,212)<sup>22</sup></b>
<b>Total cost</b>		<b>\$1,959,594</b>

<sup>22</sup> An amount of \$52,212, representing overage charges for trash removal provided by West Tewksbury Contractors, is reported separately in finding 1 (recommendation 1h) as unsupported costs. Therefore, to avoid double-counting, we have reduced the total cost amount of \$2,011,806 by \$52,212, leaving the remaining \$1,959,594 as unsupported costs reported in finding 2.

## Appendix F

### UNSUPPORTED PROCUREMENT COSTS RECOVERY ACT FUNDS

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Number	Entity or project	Unsupported costs
	<b>Building products and supply vendors</b>	
1	Frank McCartin, Inc.	\$3,631
2	Harvey Industries	\$200,751
3	Marc L'Heureux	\$1,500
4	Harmon's Paint	<u>\$7,339</u>
	<b>Subtotal four vendors</b>	<b>\$213,221</b>
	<b>Architectural design firms</b>	
	Jeffrey J. Cook Architects, Inc.	<b>\$13,800</b>
	<b>Construction change orders</b>	
	Bishop Markham Village roof replacement	<b>\$35,492</b>
	<b>Total cost</b>	<b>\$262,513</b>