



Commonwealth of Massachusetts  
Office of the State Auditor  
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*Making government work better*

Official Audit Report – Issued April 21, 2011

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## Auburn Housing Authority

For the period April 1, 2008 through June 30, 2010



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## **TABLE OF CONTENTS/EXECUTIVE SUMMARY**

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### **INTRODUCTION**

**1**

The Auburn Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws. The Authority oversees 190 public housing units: 90 state elderly units, 32 family units, eight special needs units, and 60 federal elderly units. The Authority was awarded an American Recovery and Reinvestment Act (ARRA) grant from the Department of Housing and Urban Development for capital improvements in the amount of \$88,269 to transfer 43 state-owned housing units to federally owned units. The Authority replaced sidewalks, repaired a retaining wall, replaced windows and doors, performed plumbing repairs, and replaced fixtures. As of June 30, 2010, the Authority had expended the full amount of the grant.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Authority for the period April 1, 2008 to June 30, 2010. The objectives of our audit were to review and analyze the Authority's management controls and practices over certain areas and functions for the purpose of determining their adequacy and review its compliance with laws, rules, and regulations. Also, we conducted a review of certain federal stimulus funds received and expended by the Authority and reviewed the management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate compliance with laws, rules, and regulations applicable to ARRA.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended June 30, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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### **AUDIT RESULTS**

**4**

#### **1. NONCOMPLIANCE WITH PREVAILING WAGE REQUIREMENTS OF THE ARRA GRANT**

**4**

During our review of the ARRA grant expenditures, we found that the Authority paid two vendors for sidewalk paving and plumbing work done during the renovation and transfer of 43 state units to federal units. The Authority did not comply with the prevailing wage requirements of the ARRA grant, which includes the Davis-Bacon Act (DBA) provision, or Chapter 149, Sections 26 through 27, of the General Laws, the Massachusetts Prevailing Wage Law (MPWL). This matter will be referred to the Office of the Attorney General for its review. We discussed the issue with the Authority's Executive Director, who indicated that she did not have any previous experience with either the DBA or the MPWL and that she was unaware of the contracting or bid requirements.

**2. IMPROVEMENTS NEEDED IN ARRA REPORTING****6**

During our audit of the Authority's Section 1512 ARRA reporting, we found that the amount of jobs created/retained that the Authority reported for the period ended June 30, 2010 could not be verified. Also, the amount of funds received was reported incorrectly for the reporting period ended March 31, 2010. The Authority reported 2.66 jobs created/retained on its June 30, 2010 Section 1512 report; however, this figure could not be verified because the Authority lacked sufficient vendor payroll records. The Authority hired a company who prepared its ARRA reports. One vendor who did plumbing work under the ARRA grant provided the Authority with weekly payroll information. The vendor who performed sidewalk repairs and paving also provided the Authority with its weekly payroll information; however, it was incomplete. The Executive Director indicated that she was unaware as to how the company who prepared the Section 1512 reports arrived at the job numbers reported therein. Also, in reviewing the March 31, 2010 Section 1512 report, we noted that the Authority reported ARRA funds received to date totaling \$88,269; however, only \$1,906 was received as of that date.

## INTRODUCTION

### *Background*

The Auburn Housing Authority is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws. The Authority oversees 190 public housing units: 90 state elderly units, 32 family units, eight special needs units, and 60 federal elderly units.

### *Audit Scope, Objectives, and Methodology*

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Authority for the period April 1, 2008 to June 30, 2010. The objectives of our audit were to determine the Authority's compliance with applicable laws, rules, and regulations and to review and analyze its management controls and practices over the following areas and functions for the purpose of determining their adequacy: (1) tenant selection; (2) preparation and reoccupation of vacant units; (3) rent determinations; (4) collectability of accounts receivables; (5) payroll, travel, and fringe benefits; (6) site inspections; (7) disbursements; (8) inventory controls over property and equipment; (9) contract procurement; (10) cash management and investment practices; (11) DHCD-approved budgets versus actual expenditures; and (12) level of need for operating subsidies and operating reserves. Also, we conducted a review of certain American Recovery and Reinvestment Act (ARRA) federal stimulus funds received and expended by the Authority and reviewed the management control system for measuring, reporting, and monitoring the effectiveness of its programs and to evaluate compliance with laws, rules, and regulations applicable to ARRA.

During our audit period, the Authority was awarded an ARRA grant from the Department of Housing and Urban Development for capital improvements in the amount of \$88,269 to convert 43 units of state-owned housing units to federally owned units. The Authority replaced sidewalks, repaired a retaining wall, replaced windows and doors, performed plumbing repairs, and replaced fixtures. As of June 30, 2010, the Authority had expended the full amount of the grant. The following table details the federal stimulus funds awarded, received, and expended during the audit period:

<u>Program/Purpose</u>	<u>Amount of Award</u>	<u>Contract Term</u>		<u>Revenue Received</u>	<u>Expenses Reported</u>
		<u>Start</u>	<u>End</u>		
<b>Capital Fund Formula Grant</b>					
Retaining Wall Repair	\$ 2,805	-	-	\$ 2,805	\$ 2,805
Window and Door Replacement	18,100	-	-	18,100	18,100
Plumbing Repairs/Fixtures	32,009	3/16/10	6/30/10	32,009	32,009
Sidewalk Replacement	<u>35,355</u>	3/16/10	6/30/10	<u>35,355</u>	<u>35,355</u>
Total	<u>\$88,269</u>			<u>\$88,269</u>	<u>\$88,269</u>

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

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenant accounts receivable balances were written off properly.
- Procedures for making payments to employees for payroll, travel, and fringe benefits to verify compliance with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition and to determine whether the Authority has in place an updated official written property maintenance plan for its managed properties.
- Authority expenditures to determine whether they were reasonable, allowable, and applicable to the Authority's operations and were adequately documented and properly authorized in accordance with established criteria.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD regulations.

- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.
- Operating reserve accounts to verify that the Authority's reserves fell within DHCD provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Federal stimulus funds awarded to the Authority.
- Administrative expenses charged to the ARRA grant award to determine whether funds were expended for intended purposes and were reasonable.
- Internal control procedures developed and utilized by the Authority to ensure accountability for the administration and expenditure of ARRA funds.
- Procedures for making payments to contractors to verify compliance with established rules and regulations.
- Cash management and drawdown procedures to determine whether the Authority complied with ARRA requirements.
- The Authority's ARRA reports to determine whether they were in compliance with reporting requirements.
- Site inspections to determine whether the work funded by ARRA grants was completed.
- Verification of whether the Authority has applied for or plans to receive additional ARRA funds in the future.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 27-month period ended June 30, 2010, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested. After concluding audit fieldwork, a draft of this report was provided to Authority officials for their review and response; however, they chose not to provide a written response.

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## AUDIT RESULTS

### 1. NONCOMPLIANCE WITH PREVAILING WAGE REQUIREMENTS OF THE ARRA GRANT

Our review of American Recovery and Reinvestment Act (ARRA) grant expenditures disclosed that the Auburn Housing Authority received \$88,269 from the Department of Housing and Urban Development for capital improvements including the transfer of 43 state-owned units to federal ownership. Of this amount, the Authority expended \$63,267 as follows: \$35,355 was awarded to one vendor for paving and sidewalk repairs, and \$27,912 was awarded to another vendor for plumbing renovations. We found that the Authority did not comply with the prevailing wage requirements of the ARRA grant, including the federal Davis-Bacon Act (DBA) and provisions of the Massachusetts Prevailing Wage Law (MPWL), Chapter 149, Sections 26 through 27, of the Massachusetts General Laws.

The DBA requires all contractors and subcontractors performing work on federal contracts in excess of \$2,000 to pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits listed in the contract's DBA wage determination for corresponding classes of laborers and mechanics employed on similar projects in the area. Section 1606 of ARRA provides that employees "shall be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40, United States Code." This refers to the DBA, which establishes minimum wages to be paid to employees in certain trades on certain federal projects. In addition, a memorandum from the Massachusetts Executive Office of Labor and Workforce Development entitled "Notice to Awarding Authorities for Projects Funded through the American Recovery and Reinvestment Act," dated March 2009, states, in part:

*Persons awarding contracts for public works construction projects that are funded in whole or in part by the ARRA must comply with the provisions of both the DBA and the Massachusetts Prevailing Wage Law. Awarding authorities must obtain prevailing wage rate schedules from the Division of Occupational Safety and from the US Department of Labor, and must incorporate both sets of wage rates in the contract and require that the higher of the two rates be paid for each trade.*

Contracting agencies are required to include in all bid solicitations and the resulting contracts language that requires the payment of prevailing wages. The United States Department of Labor's Memorandum No. 207, dated May 29, 2009, notes the applicability of Davis-Bacon

labor standards to federal and federally assisted construction work funded in whole or in part under the provisions of the ARRA, as follows:

*Regulations in 29 CFR [Code of Federal Regulations] 5.5 instruct agencies concerning application of the standard Davis-Bacon contract clauses set forth in that section. Federal contracting/assisting agencies must include the standard Davis-Bacon contract clauses found in 29 CFR 5.5 (a) in bid solicitations and resultant covered construction contracts that are in excess of \$2,000 for construction, alteration or repair (including painting and decorating), regardless of the amount of ARRA funding or assistance.*

Moreover, Chapter 149, Section 27, of the General Laws states, in part:

*In advertising or calling for bids for said works, the awarding official or public body shall incorporate said schedule (rate or rates of wages) in the advertisement or call for bids by an appropriate reference thereto, and shall furnish a copy of said schedule, without cost, to any person requesting the same. Said schedule shall be made a part of the contract for said works and shall continue to be the minimum rate or rates of wages for said employees during the life of the contract.*

We found that the Authority's solicitation for quotes for sidewalk repairs and paving and plumbing work to be done during the conversion of its state units to federal units did not include language requiring that the vendor comply with the prevailing wage requirements. The Authority signed the contractors' bid quotations authorizing the work.

The plumbing contractor submitted a weekly payroll that documented the wages paid to the contractor's employees; however, the vendor did not submit a prevailing wage certification with the payroll documents. Contractors must furnish a certification that the wages paid conform to MPWL or DBA prevailing wages. We found that those hourly rates documented in the plumbing contractor's weekly payroll submittals were comparable to the federal wage rate; however, it was not possible to compare those rates to the Commonwealth of Massachusetts prevailing wages in effect at that time. We also noted that although the paving/sidewalk repair vendor did submit payroll documentation to the Authority, the documentation was incomplete and uncertified.

We discussed the issue with the Authority's Executive Director, who indicated that she was not aware of the DBA and MPWL contracting and bid requirements. Without proper vendor bidding and contracting procedures, the Authority cannot ensure that all employees who worked on the federal ARRA grant were paid the proper wages to which they were entitled. This matter will be referred to the Office of the Attorney General for its review.



***Recommendation***

The Authority should discuss its noncompliance with DBA and MPWL requirements with the Department of Housing and Urban Development, which funded the project, and the Department of Housing and Community Development, whose units were federalized.

**2. IMPROVEMENTS NEEDED IN ARRA REPORTING**

During our audit, we noted that the Authority's Section 1512 ARRA reporting of jobs created/retained could not be verified for the reporting period ended June 30, 2010. The Office of Management and Budget (OMB) provided guidance on job estimation in its memorandum M-10-08 dated December 18, 2009. Section 5.2 of the memorandum states, "The Section 1512 reports contain only estimates of jobs created and jobs retained." A job created is defined as a "new position created and filled, or an existing unfilled position that is filled, that is funded by the Recovery Act." A job retained is defined as "an existing position that is now funded by the Recovery Act." The memorandum provides the following method for calculating the job creation and retention for the quarter being reported:

*The estimate of the number of jobs created or retained by the Recovery Act should be expressed as "full-time equivalents" (FTE). In calculating an FTE, the number of actual hours worked in funded jobs is divided by the number of hours representing a full work schedule for the kind of job being estimated. These FTEs are then adjusted to count only the portion corresponding to the share of the job funded by Recovery Act funds.*

The Authority reported 2.66 jobs created/retained on its June 30, 2010 Section 1512 report. However, we found that this figure could not be verified because the Authority lacked sufficient vendor payroll records. One vendor who did plumbing work under the ARRA grant provided the Authority with its weekly payroll information. The other vendor who performed the sidewalk repairs and paving also provided the Authority with its weekly payroll information; however, it was incomplete. The Authority hired a company to prepare its ARRA reports, and the Authority's Executive Director indicated that she was unaware as to how the company arrived at the job figures reported therein.

After the submission of the Section 1512 report for the period ended June 30, 2010, the Department of Housing and Urban Development questioned the jobs calculation, finding the reported number of jobs to be higher than its estimated range of job creation based on the

Authority's award amount. The vendor who prepared the Section 1512 report responded as follows:

*We have double checked the report and job impact is correct. The jobs funded by ARRA in Quarter 2 were higher, since this was the peak work quarter for this grant.*

However, since the Authority lacked sufficient records necessary to recalculate the jobs number, the company's reported information could not be verified. In addition, our review of the Authority's March 31, 2010 Section 1512 report revealed that although one of the Authority's vendors worked 41 hours during the month of March, the Authority did not report any jobs information for that quarter.

Also, we found that the Authority at that time reported ARRA funds received to date totaling \$88,269; however, only \$1,906 was received as of March 31, 2010. The OMB Data Dictionary, which specifies the required data reporting elements, defines the total federal amount of ARRA funds received/invoiced as "the total amounts of the Recovery Act funds received through drawdown, reimbursement or invoice." The total amount of \$88,269 was received and reported correctly in the cumulative total of funds received included on the June 30, 2010 Section 1512 report.

***Recommendation***

In future ARRA reporting, the Authority should obtain the necessary payroll information and use the vendor's full-time equivalent work schedule and actual hours worked when calculating jobs created/retained and report funds for the correct quarter in which they are received.