



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-0665-3A

INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
GLOUCESTER HOUSING AUTHORITY
JULY 1, 2006 TO MAY 31, 2008

OFFICIAL AUDIT
REPORT
FEBRUARY 11, 2009

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INTRODUCTION

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Gloucester Housing Authority for the period July 1, 2006 to May 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program. In addition, we reviewed the Authority's progress in addressing the conditions noted in our prior audit report (No. 2006-0665-3A).

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 23-month period ended May 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the area tested.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED - OPERATING SUBSIDIES RECEIVED

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During our prior audit of the Gloucester Housing Authority (No. 2006-0665-3A), which covered the period July 1, 2003 to June 30, 2005, we requested and received from the Department of Housing and Community Development (DHCD) a statement of operating subsidy balances due and outstanding for each Local Housing Authority (LHA) of the Commonwealth as of June 30, 2005. During our field visits to the respective LHAs, we reviewed the subsidy records of each LHA to determine whether the amounts reported were in agreement with the balances reported to DHCD. We noted that the Authority's subsidy records indicated that DHCD owed the Authority \$188,419, whereas DHCD's records indicated that it owed the Authority \$169,288. We recommended that the Authority communicate with DHCD to determine the correct balance.

Our follow-up review determined that the Authority contacted DHCD and confirmed that the subsidy of \$188,419 had accumulated from fiscal years 2004 and 2005. The Authority subsequently received this \$188,419 from DHCD on June 30, 2006.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

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Our prior audit noted several conditions that required improvement. Specifically, the audit disclosed that: a) 68 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing units; b) three vacant maintenance positions were not filled, resulting in preventive maintenance not being performed; and c) modernization requests remained unfunded by DHCD. Our follow-up review indicated that the Authority has partially resolved these three issues, as follows:

a. Compliance with State Sanitary Code

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Our prior audit noted 68 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint on walls/ceilings, mold, mildew, leaking brickwork and windows, failing roofs, and other health and safety hazards. Our current review determined

that the Authority has partially resolved these issues. Specifically, the Authority has addressed the instances of peeling paint on walls/ceilings, mold, mildew, leaking windows, and other health and safety hazards. We also noted that the Authority's five units at McPherson Park apartments have been renovated and the issue of water penetration has been addressed. However, the failing roofs, rotted beam, and leaking brickwork issues have not yet been corrected, because of the lack of funding from DHCD. The Assistant Executive Director stated that the Authority met with DHCD on September 9, 2008 to discuss funding to address these unresolved issues. In its response, the Authority indicated that it will continue to pursue funds to make timely repairs and to address its capital improvement needs.

b. Vacant Maintenance Positions Resulting in Preventive Maintenance Not Being Performed

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Our prior audit reported that the Authority's maintenance staff had been reduced by three employees due to a lack of funding. As a result, the Authority's vacant unit turnover and work-order completion time had increased, and much of its scheduled preventive maintenance had been postponed. Our follow-up review revealed that the Authority filled one of the three vacant maintenance positions after receiving funding for this position from DHCD. In its response, the Authority indicated that the addition of a maintenance position in December 2007 has resulted in a drastic decrease in vacant unit turnaround time, and that they will aggressively pursue the funding needed to perform preventive maintenance.

c. Modernization Initiatives Partially Funded

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Our prior audit found that although the Authority had applied to DHCD for over \$1.4 million in funding for capital improvement needs for its state-aided 200-1, 667-1, 667-2, 667-4, 667-5, 667-6, and 705-1 developments, including roof replacement, kitchen/bath renovations, elevator controls, and new windows, these requests were not funded. Our follow-up review determined that the Authority has received \$158,000 for the elevator controls at its 667-5 (Sheedy Park) and 667-6 (Clark Building) developments, and \$1,104,029 for new windows, waterproofing, and masonry work at its 667-4 (McPherson Park) development. The Authority had previously requested \$390,000 in 2001 to replace roofs at Lincoln and Riverdale Parks and Arthur Street. In a letter to DHCD, dated June 5, 2007, the Authority requested emergency funding for the replacement of 50 roofs at its Lincoln and Riverdale Park developments. DHCD approved an emergency grant for \$65,000 on August 13, 2007. The Authority did not receive any funding for prior requests totaling \$735,000 for kitchen, bath, and electrical work at various family and elderly housing locations, and the Authority's request for roof replacement at its Arthur Street development remains unfunded. In its response, the Authority indicated that it will continue to work with DHCD to maximize its eligibility for modernization funding.

3. PRIOR AUDIT RESULTS UNRESOLVED

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Our prior audit of the Authority disclosed two additional issues that have yet to be resolved. Specifically, the Authority was a) not pursuing the development of its property at 252-256 Main Street to build additional affordable state-aided housing units, and b) not filling vacant units in compliance with DHCD's guidelines. Our follow-up review disclosed that these issues have not been remedied since our prior audit. No decision regarding the development of Authority-owned property on Main Street had been reached as of the end of

our audit period, and we found that vacant unit turnaround time has increased since our last audit.

a. Availability of Land to Build Affordable Housing Units **7**

Our prior audit reported that the Authority owns approximately 32,000 square feet of land located at 252-256 Main Street on which it had planned to construct a 667-7 elderly housing development. However, this project was suspended after DHCD withdrew funding due to local building restrictions and other issues. Our follow-up review disclosed that the Authority wrote to DHCD on May 7, 2007, describing the historical development efforts at the Main Street site, and requesting DHCD's assistance to determine the best use for the site. No final decision had been made as of the completion of our fieldwork. In its response, the Authority indicated that it will continue to discuss the possible development of this site with potential developers.

b. Vacant Units Not Reoccupied within DHCD Guidelines **7**

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Our prior audit disclosed that the Authority's average turnaround time for vacant units was 38 days. Moreover, we found that there were over 900 applicants on the Authority's waiting list as of June 30, 2005. Our follow-up review disclosed that the Authority's average unit turnaround time for vacant units has increased from 38 days to more than 74 days. The number of applicants on the Authority's waiting list was 410 as of May 31, 2008. During our audit, 144 units were vacant for a period of 21 days or more, resulting in lost potential rental income of approximately \$36,690 and at least temporarily depriving needy citizens of subsidized housing. The Authority attributed the increase in turnaround time to two unfilled maintenance positions and a lack of eligible applicants for three-bedroom units. In its response, the Authority indicated that it has discussed a possible waiver with DHCD to place larger two-bedroom families in three-bedroom units.

4. CURRENT AUDIT RESULTS - IMPROVEMENTS NEEDED IN CREDIT CARD MONITORING AND POLICIES **9**

Our current audit found that the Authority's use of credit cards needs improvement. Specifically, the Authority had not established policies or procedures for using credit cards to procure goods. As a result, the Authority has little assurance that it received the best value for its purchases and that the goods acquired were necessary. Although the Authority has a comprehensive purchasing manual, there are no written policies or procedures governing the use of its credit cards, which leaves the process exposed to potential misuse as well as uneconomical purchasing. In its response, the Authority indicated that it has taken corrective action to better control credit card expenses.

INTRODUCTION

Audit Scope, Objective, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Gloucester Housing Authority for the period July 1, 2006 to May 31, 2008. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to evaluate its compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures, as we considered necessary.

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.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Procedures for making payments to landlords under the Massachusetts Rental Voucher Program to verify compliance with the contract provisions and that rental charges by landlords were consistent with established rules and regulations.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.

- 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.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issues noted in our prior report (No. 2006-0665-3A).

Based on our review, we have concluded that, except for the items noted in the Audit Results section of our report, during the 23-month period ended May 31, 2008, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED – OPERATING SUBSIDIES RECEIVED

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Our follow-up review determined that the Authority contacted DHCD, and confirmed that the subsidy of \$188,419 had accumulated from fiscal years 2004 and 2005. The Authority subsequently received this \$188,419 from DHCD on June 30, 2006.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

Our prior audit noted several conditions that required improvement. Specifically, the audit disclosed that: a) 68 instances of noncompliance with Chapter II of the State Sanitary Code existed at the Authority's state-aided housing units; b) three vacant maintenance positions were not filled, resulting in preventive maintenance not being performed; and c) modernization requests remained unfunded by DHCD. Our follow-up review indicated that the Authority has taken partial action to address these three prior issues, as follows:

a. Compliance with State Sanitary Code

DHCD's Property Maintenance Guide, Chapter 3(F), requires that inspections of dwelling units be conducted annually and upon each vacancy to ensure that every dwelling unit conforms to minimum standards for safe, decent, and sanitary housing as set forth in Chapter II of the State Sanitary Code. Our prior audit noted 68 instances of noncompliance with Chapter II of the State Sanitary Code, including peeling paint on walls/ceilings, mold, mildew, leaking brickwork and windows, failing roofs, and other health and safety hazards. Additionally, our prior audit noted the Authority's McPherson Park apartments were taken off line due to water penetration. Our current review

determined that the Authority has partially resolved these issues. Specifically, the Authority has addressed the instances of peeling paint on walls/ceilings, mold, mildew, leaking windows, and other health and safety hazards. We also noted that the Authority's five units at McPherson Park apartments have been renovated and the issue of water penetration has been addressed. However, the failing roofs, rotted beam, and leaking brickwork issues have not yet been corrected because of the lack of funding from DHCD. The Assistant Executive Director informed us that the Authority met with DHCD on September 9, 2008 to discuss funding to address these unresolved issues.

Recommendation

The Authority should continue to work with DHCD to resolve these instances of noncompliance with Chapter II of the State Sanitary Code.

Auditee's Response

In addition to the meeting of September 9, 2008 mentioned in the audit report the Gloucester Housing Authority corresponded with DHCD on July 29, 2008 expressing our desire "to take whatever steps are necessary to proceed with" the roof repairs at Riverdale Park, 200-1 (see attached). There is a Contract for Financial Assistance, Project 1021 in the amount of \$65,000. We look forward to the implementation of this Work Plan.

The Gloucester Housing Authority will continue to pursue funds to make timely repairs and to address our capital improvement needs.

b. Vacant Maintenance Positions Resulting in Preventive Maintenance Not Being Performed

Our prior audit reported that the Authority's maintenance staff had been reduced by three employees due to a lack of funding. As a result, the Authority's vacant unit turnover and work-order completion time had increased, and much of its scheduled preventive maintenance had been postponed. Our follow-up review revealed that the Authority filled one of the three vacant maintenance positions after receiving funding for this position from DHCD. Although the Authority has gained one additional maintenance worker since our prior audit, comprehensive preventive maintenance still cannot be performed because the Authority remains understaffed, and vacant unit turnaround time is still in excess of the 21 working days allowed by DHCD (see Audit Result No. 3b).

Recommendation

The Authority should secure the necessary funding to fill its maintenance positions and ensure that its vacant units are refurbished and reoccupied within the timeframe established by DHCD. DHCD should provide funding to the Authority in accordance with its statutory mandate.

Auditee's Response

DHCD provided a healthy increase in LHAs [local housing authorities] Allowable Non-Utility Expense Level in Fiscal Year Ending June 30, 2008. This increase provided the Gloucester Housing Authority with sufficient discretionary funding to fill one of its 3 unfilled maintenance positions. A new Maintenance Mechanic was hired on December 10, 2007. The addition of this eighth Mechanic resulted in a drastic decrease in the number of units that exceeded the 21 working days to make vacant units ready for occupancy. We went from 37 units down to 5 units in excess of the 21 days.

The addition of the eighth Mechanic also allowed us to institute a staffing plan that assigned a Maintenance Mechanic to each of our developments exclusively every morning. This gives us a chance to perform preventive maintenance.

As funding becomes available we will aggressively pursue it in order to enhance and improve service to our residents, more effectively help those in need and preserve the integrity of our properties.

c. Modernization Initiatives Partially Funded

Our prior audit found that the Authority had applied to DHCD for over \$1.4 million in funding for capital improvement needs for its state-aided family and elderly housing developments (200-1, 667-1, 667-2, 667-4, 667-5, 667-6, and 705-1). These requests were not funded by DHCD. Our follow-up review determined that the Authority has received \$158,000 for the elevator controls at its 667-5 (Sheedy Park) and 667-6 (Clark Building) development and \$1,104,029 for new windows, waterproofing, and masonry work at its 667-4 (McPherson Park) development. The Authority did not receive the \$390,000 requested in September 2001 for roof replacement at the 200-1 (Riverdale Park), 667-1 (Lincoln Park), and 705-1 (Arthur Street) developments. In a letter dated June 5, 2007, the Authority made an emergency request to DHCD to replace 50 roofs at the Lincoln and Riverdale Park developments. On August 13, 2007, DHCD executed a \$65,000 contract with the Authority for the roof replacement at its Lincoln and Riverdale Park developments. The remaining three project requests remain unfunded, as follows:

<u>Date of Request</u>	<u>Description</u>	<u>Estimated Cost</u>
September 2001	Roof Replacement, 705-1, Arthur Street	\$ 30,000
September 2001	Kitchen/Baths, 200-1, Riverdale Park	\$280,000
September 2001	Interrupter Outlets for Kitchen/Baths 667-2, Poplar Park	\$425,000

Deferring or denying needed modernization funding may result in further deteriorating conditions that could render the units and buildings uninhabitable. If the Authority does not receive funding to correct the remaining projects (which have been reported to DHCD), additional emergency situations may occur, and the Authority's ability to provide safe, decent, and sanitary housing for its elderly and family tenants could be seriously compromised. Lastly, deferring the Authority's modernization needs into future years will cost the Commonwealth's taxpayers additional money due to inflation, higher wages, and other related costs.

Recommendation

The Authority should continue to appeal to DHCD for the modernization funding needed to address the remaining projects.

Auditee's Response

On January 7, 2009 we responded to a DHCD request for proposals for modernization work in anticipation of the passage of a Federal Economic Stimulus Package. The projects had to be "shovel-ready" and able to be completed within six months. Our proposal included the replacement of 45 roofs at Riverdale Park (200-1), replacement of six 30 year old boilers at the John W. Sheedy Building (667-5), painting of exterior trim and overhangs at Lincoln Park (667-1) and Poplar Park (667-2) and replacement of six roofs at Lincoln Park.

Over the past several years DHCD has been working with housing authorities in developing a dramatically new way of disbursing modernization funding. In 2008 DHCD launched the Capital Planning System-based funding of capital needs for LHAs. This system was described in DHCD's Public Housing Notice: 2008-13, November 13, 2008. The Gloucester Housing Authority has cooperated fully with DHCD in the implementation of this new system. All of our State-aided public housing projects have been inventoried in preparation for inspections to assess our capital needs. We will continue to work with DHCD to maximize our eligibility for modernization funding.

3. PRIOR AUDIT RESULTS UNRESOLVED

Our prior audit of the Authority disclosed two additional issues that have yet to be addressed. Specifically, the Authority was a) not pursuing the development of its property at 252-256 Main Street to build additional affordable state-aided housing units, and b) not filling vacant units in compliance with DHCD's guidelines. Our follow-up review disclosed that these issues have not been remedied since our prior audit. No decision regarding the development of Authority-owned property on Main Street had been reached as of the end of our audit period, and we found that vacant unit turnaround time has increased since our last audit.

a. Availability of Land to Build Affordable Housing Units

Our prior audit reported that the Authority owns approximately 32,000 square feet of land located at 252-256 Main Street on which it had planned to construct a 667-7 elderly housing development. However, this project was suspended after DHCD withdrew funding due to local building restrictions and other issues. Our follow-up review disclosed that the Authority wrote to DHCD on May 7, 2007, describing the historical development efforts at the Main Street site, and requesting DHCD's assistance to determine the best use for the site. The Assistant Executive Director of the Authority informed us that DHCD is encouraging private development of the site. The Authority also met with a development consultant on March 12, 2008 to discuss viable options for the site, but no final decision had been made as of the completion of our fieldwork.

Recommendation

The Authority should continue in its efforts to develop or sell the land.

Auditee's Response

The Authority will continue to discuss the possibility of development of the site with potential developers.

b. Vacant Units Not Reoccupied within DHCD Guidelines

DHCD's Property Maintenance Guide indicates that housing authorities should reoccupy units within 21 working days of their being vacated by a tenant. Our prior audit disclosed that the Authority's average turnaround time for vacant units was 38 days. Moreover, we found that there were over 900 applicants on the Authority's waiting list as of June 30, 2005. Our follow-up review disclosed that the Authority's average unit turnaround time for vacant units has increased from 38

days to more than 74 days. The number of applicants on the Authority's waiting list was 410 as of May 31, 2008. During our current audit, 144 units were vacant for a period of 21 days or more, resulting in lost potential rental income of approximately \$36,690 and at least temporarily depriving needy citizens of subsidized housing. The Authority attributed the increase in turnaround time to two unfilled maintenance positions and a lack of eligible applicants for vacant three-bedroom units. As of May 31, 2008, DHCD had only approved funding for one maintenance person, rather than the three requested by the Authority.

Recommendation

The Authority should secure the necessary funding to fill its maintenance positions and ensure that its vacant units are refurbished and reoccupied within the timeframe established by DHCD. If filling three-bedroom units is problematic, the Authority should seek a waiver from DHCD to allow it to fill the units with smaller families, or seek funding from DHCD to renovate the units to accommodate demand.

Auditee's Response

The GHA experienced an unusually high number of vacancies, seventy-four, in its 254 unit family housing portfolio during the audit period. Although the GHA was diligent in its efforts to fill the family units within the required timeframe, we ran into an increasingly unqualified applicant pool. The GHA contacted over 1700 family applicants during the audit period to fill the vacancies. The majority of applicants resided in shelters and were either not interested in moving to Gloucester, or left the shelters without a forwarding address.

In addition, the majority of vacant family units were three-bedroom which is our weakest waiting list. The GHA exhausted its three-bedroom waiting list on several occasions and had to perform extensive outreach to replenish an applicant pool. We also worked closely with DHCD and were granted a budget exemption in FY 2008 for additional staffing to expedite the application process. The GHA also received a grant from DHCD to initiate the first Housing First Program in a state-aided development. Many applicants denied for housing were shelter applicants who lacked housing history. Under the Housing First Program, shelter applicants without five-year housing histories are admitted into our state-aided housing developments under a conditional tenancy and work with a case manager during the first nine-months of their tenancy. The GHA has filled 15 vacancies through the Housing First Program.

The GHA continues to perform applicant outreach and has discussed a possible waiver with DHCD to place larger two bedroom families in three bedroom units when we have exhausted our waiting list.

4. CURRENT AUDIT RESULTS - IMPROVEMENTS NEEDED IN CREDIT CARD MONITORING AND POLICIES

Our current audit found that the Authority's use of credit cards needs improvement. Specifically, we noted that the Authority has not established policies or procedures for using credit cards to procure goods. As a result, the Authority has little assurance that it received the best value for its purchases and the goods acquired were necessary. During the period under audit, the Authority paid \$49,910 for credit card purchases. Although the Authority has a comprehensive purchasing manual, there are no written policies or procedures governing the use of its credit cards, which leaves the process exposed to potential misuse as well as uneconomical purchasing. The credit cards were in the custody of the Information Technology (IT) Director, who also functions as the purchasing agent. Our review noted the following problems:

- Internal requisitions and/or purchase orders were either not prepared or prepared by the IT Director without supervisory review, and most purchases were made via the Internet.
- Items were received by and payments were approved by the IT Director without further review.
- Credit card statements were reviewed only by the IT Director.
- The Authority paid \$222 in Massachusetts sales tax even though it is a tax-exempt entity.

An efficient internal control system requires pre- and post-purchase approval and segregation of duties throughout the purchasing and cash disbursement functions. Credit card purchases can be problematic because the holder can commit the entity to monetary obligations without going through the standard purchase-order system. Therefore, it is imperative that credit card purchases be closely monitored.

Prior to the completion of our fieldwork, on October 8, 2008, the Authority adopted the following credit card policy to be added to the procurement guidelines:

"Purchase orders involving the use of the GHA's [Gloucester Housing Authority's] credit card(s) must be issued by and receipt of such supply and/or service verified by the Executive Director or his/her designee, and in no instance shall be issued by or receipt verified by the individual placing the order. A board representative shall be required to countersign the payment voucher for all credit card expenditures."

In addition, on November 3, 2008, the Authority sent us a copy of a Board of Directors' resolution dated October 8, 2008, which called for approval of each credit card purchase separately prior to purchasing.

Recommendation

Although the Authority has recently adopted a credit card policy governing the purchase of goods and services, it should establish the following actions to better control credit card expenses:

- Ensure that its policies and procedures for the use of credit cards are consistently followed.
- Require the independent timely review of credit card statements and documentation.
- Provide its sales tax exemption information to vendors.

Auditee's Response

The Gloucester Housing Authority is strictly and consistently adhering to its credit card policy with review of statements and documentation in a timely manner.

When possible the Gloucester Housing Authority provides sales tax exemption information to vendors. There are times when "the exercise of sound business practices", as required under Chapter 30B, Section 4, mandates purchase in a manner that does not afford the opportunity for tax exemption. This may occur during spot purchases or internet purchases that realize a greater savings than if the same purchases are made through a traditional source that could provide tax exemption. The Authority's Purchasing Agent always applies sound business practices when purchasing an item in a given quantity and at a given price. If the purchase through a vendor unable to accommodate our tax exempt status affords a better value for the Authority sound business practice would dictate that the purchase be made without tax exemption.