



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report-Issued January 23, 2014

Northampton Housing Authority

For the period July 1, 2010 through June 30, 2012





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Mr. Jonathan Hite, Executive Director
Northampton Housing Authority
49 Old South Street
Northampton, MA 01060

Dear Mr. Hite:

I am pleased to provide this performance audit of the Northampton Housing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2010 through June 30, 2012. My audit staff discussed the contents of this report with management of the agency, and their comments are reflected in this report.

I would also like to express my appreciation to the Northampton Housing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written in a cursive style.

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

OVERVIEW OF AUDITED AGENCY 2

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY 3

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE’S RESPONSE 5

1. The Authority procured services from vendors without soliciting quotes from the marketplace through a competitive bidding process. 5

a. Some services were not procured in compliance with Chapter 30B of the General Laws. 5

b. Some services were not procured in compliance with Chapter 149 of the General Laws. 6

EXECUTIVE SUMMARY

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 Northampton Housing Authority for the period July 1, 2010 through June 30, 2012.

The objectives of our audit were to review and analyze the Authority's internal controls over its procurement of goods and services and to determine whether its procurement activities were efficient and in compliance with the Department of Housing and Community Development's (DHCD's) procurement guidelines and laws, rules, and regulations applicable to state-aided housing programs.

Based on our audit, we have concluded that, except for the issue addressed in the Detailed Audit Results and Findings section of this report, for the period July 1, 2010 through June 30, 2012, the Authority maintained adequate internal controls in the areas tested and conducted its procurements in an efficient manner in compliance with DHCD guidelines and laws, rules, and regulations applicable to state-aided housing programs.

Summary of Findings

The Authority procured goods and services from three vendors without following competitive bidding guidelines, contrary to Chapters 30B and Chapter 149 of the General Laws. As a result, the Commonwealth cannot be certain that it received the best value for these services.

Recommendation

The Authority should establish internal controls that ensure that it complies with all applicable laws and regulations when procuring goods and services, including using competitive procurement practices when it can reasonably determine that the total purchases from a single vendor for the same services within a single year will meet or exceed the procurement limits established by state law.

OVERVIEW OF AUDITED AGENCY

Background

The Northampton Housing Authority was established in 1946 and is authorized by, and operates under, the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The Authority manages both federal and state-aided units within the city of Northampton, including the city's Florence section. Its state-aided units include 95 family units, 377 senior or adult disabled units, and 36 units for the mentally handicapped, for a total of 508 units. The Authority is managed by a five-member board of commissioners, with four members appointed by the city mayor and one by the state governor, and its main office is located at 49 Old South Street, Northampton.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Northampton Housing Authority for the period July 1, 2010 through June 30, 2012.

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.

The objectives of our audit were to review and analyze the Authority's internal controls over its procurement of goods and services and to determine whether its procurement activities were efficient and in compliance with the Department of Housing and Community Development's (DHCD's) procurement guidelines and laws, rules, and regulations applicable to state-aided housing programs.

To accomplish our audit objectives, we reviewed the Authority's procurement policies and procedures to verify that they include criteria for compliance with the state's public bidding laws (Chapters 30B and 149 of the General Laws) and DHCD guidelines. We selected non-statistical samples of purchases of equipment and other commodities and services made during the audit period by judgmentally selecting items purchased that are readily available from other vendors, likely candidates for coordinating with other housing authorities, and items that should be subject to bid. We sought (1) to evaluate the Authority's efforts to obtain best value; (2) to verify compliance with the purchasing requirements of Chapters 30B and 149 of the General Laws; and (3) to determine whether the Authority is coordinating with other local entities, such as municipalities, school departments, or regional planning organizations, to purchase goods and services collectively in order to take advantage of potential cost savings through bulk purchasing.

We gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design of and effectiveness of those controls. Specifically, we performed procedures such as interviewing personnel, reviewing policies, analyzing records, and examining documentation supporting recorded transactions.

When performing our audit, we relied on hardcopy source documents and therefore did not consider the reliability of the Authority's information system controls. Whenever sampling was used, we applied a non-statistical approach, and as a result, we were not able to project our results to the population.

Based on our audit, we have concluded that, except for the issue addressed in the Detailed Audit Results and Findings section of this report, for the period July 1, 2010 through June 30, 2012, the Authority maintained adequate internal controls in the areas tested and conducted its procurements in an efficient manner in compliance with DHCD guidelines and laws, rules, and regulations applicable to state-aided housing programs.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

1. The Authority procured services from vendors without soliciting quotes from the marketplace through a competitive bidding process.

In some instances, the Northampton Housing Authority did not follow the requirements of Chapters 30B and 149 of the Massachusetts General Laws for competitively procuring services. During the audit period, though the Authority generally followed established procurement laws, regulations, and its own established and board-approved policies, our testing found one instance of noncompliance with Chapter 30B and two instances of noncompliance with Chapter 149. In each instance, rather than competitively procuring vendors to complete an entire project, the Authority noncompetitively hired a vendor to provide the same service (e.g., painting) in multiple jobs over a several-month period. In each instance, the total amount the Authority paid the vendor for all jobs exceeded the amount requiring the services to be competitively procured. As a result, the Commonwealth cannot be certain that it received the best value for these services.

a. Some services were not procured in compliance with Chapter 30B of the General Laws.

The Authority procured pest-control services for its state-aided housing units 11 times during fiscal year 2012, for which it paid a local contractor \$7,245. At the time, Chapter 30B of the General Laws required that the Authority obtain three written or oral quotes for procurements in excess of \$5,000.¹ While the cost of each pest-control treatment was below \$5,000, the cumulative total for this monthly service exceeds that limit. We found no evidence that the Authority obtained either written or oral price quotes for these services.

Legal Requirements

Chapter 30B of the General Laws, the Uniform Procurement Act, requires the use of competitive bidding in obtaining goods and services. Specifically, at the time of the audit, Sections 4(a) through 4(c) of the law stated,

(a) Except as permitted pursuant to this section and section seven, for the procurement of a supply or service in the amount of \$5,000 or greater, but less than \$25,000, a procurement officer shall seek written or oral quotations from no fewer than three persons customarily providing such supply or service. The procurement officer shall

¹ Effective July 1, 2013, Chapter 30B, Section 4, of the General Laws was amended; it now requires that entities use sound business practices for supplies and services under \$10,000 instead of \$5,000. Chapter 30B defines sound business practices as “ensuring the receipt of favorable prices by periodically soliciting price lists or quotes.”

record the names and addresses of all persons from whom quotations were sought, the names of the persons submitting quotations and the date and amount of each quotation. A governmental body may require that procurements in amounts of less than \$25,000 be based on written quotations or be subject to the provisions of section five.

(b) The procurement officer shall award the contract to the responsible person offering the needed quality of supply or service at the lowest quotation.

(c) A procurement in the amount of less than \$5,000 shall be obtained through the exercise of sound business practices.

Reasons for Noncompliance

The Authority's Executive Director stated that the pest-control firm was selected because it has a history of satisfactory work and quick response when needed.

b. Some services were not procured in compliance with Chapter 149 of the General Laws.

In fiscal year 2011, the Authority used the services of a painting contractor and paid this vendor a total of \$11,109 in three separate payments over a two-month period for work performed at one location. Additionally, during fiscal year 2012, the Authority paid one carpet-installation contractor a total of \$15,609 to install carpeting and flooring at seven units at two different locations over an eight-month period. We found no evidence that the Authority issued a public notification or obtained written bids for these services.

Legal Requirements

Construction work such as the rehabilitation of units falls under Chapter 149, Section 44(A)(2)(B), of the General Laws, which requires public notification and the solicitation of written quotes:

Every contract for the construction, reconstruction, installation, demolition, maintenance or repair of any building estimated to cost not less than \$10,000 but not more than \$25,000 shall be awarded to the responsible person offering to perform the contract at the lowest price. The public agency shall make public notification of the contract and shall seek written responses from persons who customarily perform such work. The public notification shall include a scope-of-work statement that defines the work to be performed and provides potential responders with sufficient information regarding the objectives and requirements of the public agency and the time period within which the work shall be completed. For the purposes of this paragraph, "public notification" shall include, but need not be limited to, posting at least 2 weeks before the time specified in the notification for the receipt of responses, the contract and scope-of-work statement on the website of the public agency, on the COMPASS system, in the central register

published pursuant to section 20A of chapter 9 and in a conspicuous place in or near the primary office of the public agency.

Reasons for Noncompliance

The Authority's Executive Director stated that services such as this painting and carpet installation are procured as needed, and bundling these types of projects into one bid is not an option.

Recommendation

The Authority should establish internal controls that ensure that it complies with all applicable laws and regulations when procuring goods and services, including using competitive procurement practices when it can reasonably determine that the total purchases from a single vendor for the same services within a single year will meet or exceed the procurement limits established by state law.

Auditee's Response

The Northampton Housing Authority (NHA) appreciates the thorough work of the State Auditor's Office (SAO) in reviewing the Northampton Housing Authority's compliance with the bidding and administration of more than 25 Personal Services, Goods and Services, and Construction contracts representing \$978,000 dollars in spending over the two fiscal years audited. The NHA has and will continue to attempt to properly comply with Procurement law and policy in all areas of procurement.

In response to the SAO's findings, the NHA will bid its Extermination Services, issuing a [Request for Services] in January of 2014, though we do not anticipate exceeding the Chapter 30B limit of \$10,000. The other two areas cited—contracting for painting and flooring of vacant units—pose unique and difficult procurement challenges. For example, in annually seeking price quotes in advance of painting and flooring work to future, and thus unknown, vacancies, it will be difficult to provide the contractors with information about apartment conditions—as preparation of an annual bid would require—in advance of a vacancy to be worked on e.g., the number of bedrooms to be treated, wall or floor preparation requirements (quantity of patching, sheet-rocking, conditions determining the need for priming and number of coats, or the presence of different flooring sub-surfaces), and have the work done efficiently and economically so as to turn over the vacant unit in a timely manner. We fear seeking prices for unknown conditions will lead contractors to provide price quotes based on potential worst-case scenarios, inflating the cost of the actual work, rather than on the actual conditions of a particular apartment. We will seek the assistance of [the Department of Housing and Community Development] and other [local housing authorities] in determining the best method of procurement in these situations.