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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
COMMUNITY ECONOMIC DEVELOPMENT
ASSISTANCE CORPORATION
JULY 1, 2006 TO JUNE 30, 2008**

**OFFICIAL AUDIT
REPORT
OCTOBER 23, 2008**

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The Community Economic Development Assistance Corporation (CEDAC) was established in 1978 under Chapter 40H of the Massachusetts General Laws to assist nonprofit organizations engaged in community economic development. CEDAC is a quasi-public community-development finance institution that provides technical assistance, predevelopment lending, and consulting services to nonprofit organizations involved in housing development, workforce development, neighborhood economic development, and capital improvements to childcare facilities. Our audit, which covered the period July 1, 2006 to June 30, 2008, was conducted in accordance with generally accepted government auditing standards for performance audits. Our audit of CEDAC was conducted to review and analyze CEDAC's financial and program activities to determine whether they are operating efficiently and effectively and in compliance with their enabling legislation (Chapter 40H of the General Laws) and established policies and procedures. In addition, we followed up on the finding disclosed in our prior audit (No. 2005-1009-3A).

Based on our review, we have concluded that except as discussed in the Audit Results section of this report, during the 24-month period ended June 30, 2008, CEDAC had adequate internal controls over administrative and operating costs and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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During our follow-up review, we determined that CEDAC has taken corrective action with regard to establishing a formal written procurement policy that now includes criteria for purchases between \$5,000 and \$50,000, as well as for purchases over \$50,000. However, our review disclosed that CEDAC did not properly document compliance with these procedures while awarding certain consulting contracts. Consequently, there is limited assurance that the process of awarding contracts was conducted in accordance with its own newly-written procurement policies.

INTRODUCTION

Background

The Community Economic Development Assistance Corporation (CEDAC) is a quasi-public corporation established in 1978 under Chapter 40H of the Massachusetts General Laws. CEDAC, under the direction of its nine-member Board of Directors appointed by the Governor, is comprised of public- and private-development professionals. CEDAC provides a range of development-assistance programs to nonprofit development corporations throughout the Commonwealth to expand the supply of affordable housing and foster the revitalization of economically distressed areas. In addition, CEDAC maintains corporate control of the Children's Investment Fund, Inc., formerly named the Child Care Capital Investment Fund, Inc. (the Fund), a corporation originally established as a controlled affiliate of the United Way of Massachusetts Bay. The Fund's mission is to improve the quality and expand the availability of early childhood development programs for low- and moderate-income families in Massachusetts through investment in center-based and family-based preschool and school-age childcare facilities. Both CEDAC and the Fund are exempt from federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Donors may therefore deduct contributions made to CEDAC and the Fund.

Most of CEDAC's activity is in the area of housing development. CEDAC is the primary provider of pre-development risk capital to nonprofit producers of affordable housing in Massachusetts. While providing critical early seed money needs in the form of pre-development loans and site acquisition loans, CEDAC also provides nonprofit developers with its staff's expertise in housing finance and development and strategic project management. Through this lending program, CEDAC provides predevelopment and acquisition loans, which are repaid at the closing of construction financing.

In addition to its pre-development lending program, CEDAC also serves as underwriter of the Housing Innovations Fund (HIF), Facilities Consolidation Fund (FCF), and Community Based Housing (CBH) loans, three permanent loan programs of the Commonwealth's Department of Housing and Community Development. HIF, FCF, and CBH loans are deferred payment permanent loans that fund affordable housing development. HIF loans support housing projects including but not limited to, limited equity cooperatives, single room occupancy housing and

housing for elders. FCF loans provide capital to develop housing for clients of the Department of Mental Retardation and the Department of Mental Health. CBH loans support clients of the other Executive Office of Health and Human Services agencies.

Audit Scope, Objectives, and Methodology

Our audit, which covered the period July 1, 2006 to June 30, 2008, was conducted in accordance with applicable generally accepted government auditing standards for performance audits, as issued by the Comptroller General of the United States. The audit was conducted to review and analyze CEDAC's financial and program activities to determine whether they are operating efficiently and effectively and in compliance with their enabling legislation (Chapter 40H of the General Laws) and established policies and procedures. During our audit, we reviewed: (1) employee salaries and benefits, (2) administrative expenses (i.e. travel, conferences, employee use of credit cards, employee bonuses, consultant payments, etc.), (3) the management and distribution of CEDAC loan funds for compliance with statutory and administrative requirements, (4) contract administration, and (5) the most recent IPA audit report and management letter. In addition, we followed up on the finding disclosed in our prior audit (No. 2005-1009-3A)

Based on our review, we have concluded that except as discussed in the Audit Results section of this report, during the 24-month period ended June 30, 2008, CEDAC had adequate internal controls over administrative and operating costs and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

PRIOR AUDIT RESULT PARTIALLY RESOLVED: CONTRACT ADMINISTRATION

During our follow-up review, we determined that CEDAC took corrective action in May, 2006 by formalizing and issuing a procurement policies and procedures manual. However, our review also revealed that CEDAC did not properly document compliance with these procedures when it awarded certain consultant contracts. Consequently, there is limited assurance that CEDAC acquired these consulting services in an open, fair and fiscally prudent manner and in accordance with its own newly-written procurement policies.

CEDAC's procurement policy and procedures manual divides purchases into three categories: 1) purchases for goods or services less than \$5,000, 2) purchases for goods and services for amounts between \$5,000 and \$50,000, and 3) purchases of goods and services in excess of \$50,000. Approval requirements for each cost category are intended to promote the prudent use of funds and sound business practices. A summary of these policies follows:

- Purchases between \$5,000 and \$50,000 must be included within the operating, capital, or program budgets.
- The procurement office is required to obtain no fewer than three written or oral quotations.
- The procurement officer shall document the description of the services needed, and include the names and addresses of those providing the quote, as well as the dates and amounts of each quote obtained.
- Firms selected in the procurement process must offer the most cost effective option.
- The need for specialized services must be documented by the procurement officer and approved by the Executive Director, prior to obtaining quotes.
- Procurements expected to be in excess of \$50,000 must conform to the procurement process and be approved by the Board of Directors prior to issuing a Request for Proposal.

We reviewed six consultant contracts totaling \$153,025 and found that agency officials did not follow the procurement manual requirements to document the procedures followed in the purchasing process within the files of the six selected contractors. Of the six files we reviewed, none contained an explanation of need for the contracted services, regardless of cost category, or a procurement officer's explanation to support the necessity of a sole source award, including a summary of the contractor's unique specialized skills.

One of the three sole source contracts was for \$94,000 to a consultant charged with training individuals in Western Massachusetts under CEDAC's Workforce Development initiative. This file did not contain either documentation of the need for specialized services or an approval from the Board of Directors as required by CEDAC's procurement criteria.

Inadequate documentation of the purchasing process, including appropriate management reviews, results in the lack of reasonable assurances that procedures were performed in compliance with professional standards, legal requirements, and CEDAC's own policies and procedures.

Recommendation

CEDAC should improve its documentation of contract awards by requiring that procurement officers and management document each procedure outlined in the procurement manual in the contract files.

Auditee's Response

CEDAC's Director of Finance responded, in part:

I understand that the findings regarding the documentation in the files in procurement matters could be strengthened in that the approvals and authorizations are not as clearly noted for external audiences. CEDAC will move forward to better document its adherence to procurement documentation.

In the matter of the contract in excess of the \$50,000 amount, the amount was for a special program that had been grant funded, and historically had not been part of the board approved budget process. We will amend that protocol as well, so that those contracts for that program can be approved by the board according to the process.