



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

Making government work better

Official Audit Report-Issued November 7, 2013

Franklin County Regional Housing and Redevelopment Authority

For the period October 1, 2010 through September 30, 2012





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Making government work better

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Sharon Cottrell, Chairperson
Franklin County Regional Housing and Redevelopment Authority
42 Canal Street
Turners Falls, MA 01376

Dear Chairperson Cottrell:

I am pleased to submit this performance audit of the Franklin County Regional Housing and Redevelopment Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, October 1, 2010 through September 30, 2012. My audit staff discussed the contents of this report with management of the Authority.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'SMBump'.

Suzanne M. Bump
Auditor of the Commonwealth

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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 Franklin County Regional Housing and Redevelopment Authority for the period October 1, 2010 through September 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, effective, 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, for the period October 1, 2010 through September 30, 2012, although the Authority established internal controls over the procurement of goods and services, the controls were not adequately documented. However, when made aware of these issues, the Authority took immediate steps to correct them.

Summary of Findings

- During our audit period, the Authority did not have adequate documented policies and procedures to ensure that purchases, solicitations, and contracts were in compliance with DHCD Accounting Manual guidelines and applicable laws, rules, and regulations. Without such policies, the Commonwealth cannot be sure that the Authority's funds are being properly maximized, safeguarded against misuse, and expended for their intended purpose.
- The Authority has been using the services of an IT vendor since 1998 and paid this vendor a total of \$25,418 and \$2,680 in calendar years 2010 and 2011 respectively. Contrary to the requirements of Chapter 30B of the General Laws, the Authority never used a competitive procurement process to procure these services. As a result, the procurement process lacked integrity and the Authority cannot be certain that it received the best price for these services. We also found that although this vendor has been providing services to the Authority for more than 15 years, the Authority never entered into a formal written contract with the vendor that clearly defined the duties and responsibilities of all parties. As a result, the Authority lacked a mechanism to monitor the vendor's performance and to protect itself from any legal issues (e.g., claims for nonperformance of services, liability claims for any property damage or personal injury) that could arise.

Recommendations

- During our audit fieldwork, the Authority's board of directors approved the implementation of a procurement policy that we determined was in compliance with applicable statutory and regulatory requirements and DHCD guidelines. We believe the actions taken by the Authority in

this area were appropriate. The Authority should ensure that this newly adopted policy is kept current, communicated to all staff members, and consistently followed. Further, the Authority's management plan should be routinely updated by the Executive Director with approval from the board to include all applicable and up-to-date Authority and DHCD policies and procedures, including those that relate to procurement.

- The Authority should establish written contracts with its vendors detailing the scope of service, including the term, deliverables, and expected rate of compensation.

Auditee Action

The Authority's board of commissioners adopted an updated policy at its November 5, 2012 board meeting that addressed our initial concerns about its procurement policies and appears to be in compliance with DHCD guidelines.

OVERVIEW OF AUDITED AGENCY

The Franklin County Regional Housing and Redevelopment Authority was established in 1974 and is authorized by and operates under the provisions of Chapter 121B, Section 3A, of the Massachusetts General Laws, as amended. The Authority's management office is located at 42 Canal Street in the village of Turners Falls, within the town of Montague. The Authority's management oversees 71 units of housing for the elderly and 27 units for families. The units under Authority management are located in the Franklin County communities of Turners Falls, Orange, Bernardston, Gill, Northfield, Charlemont, and Buckland.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted an audit of certain activities of the Franklin County Regional Housing and Redevelopment Authority. The audit covered the period October 1, 2010 through September 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, effective, 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 law (Chapter 30B of the General Laws) and DHCD guidelines. We selected non-statistical samples of purchases of equipment and other commodities, as well as procurement of services, made during the audit period to evaluate the Authority's efforts to obtain the best value; to verify compliance with the purchasing requirements of Chapter 30B; and 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 conducted a limited review of the internal controls related to our audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole.

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.

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, for the period October 1, 2010 through September 30, 2012, except for the issues addressed in the Detailed Audit Results and Findings section of this report, 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***Audit Findings*****1. The Authority lacked adequate documented procurement policies and procedures.**

During our audit period, the Franklin County Regional Housing and Redevelopment Authority did not have adequate documented procurement policies and procedures to ensure that purchases, solicitations, and contracts were in compliance with Department of Housing and Community Development (DHCD) Accounting Manual guidelines and laws, rules, and regulations applicable to state-aided housing programs. Without such policies, the Commonwealth cannot be sure that the Authority's funds are being maximized, safeguarded against misuse, and expended for their intended purpose.

During our audit, we asked the Authority to provide us with a copy of its procurement policies and procedures. In response, the Authority provided us with a procurement policy adopted by its board of commissioners in 1990, but the document was actually a copy of Chapter 687 of the Acts of 1989, which created the state's public bidding law (Chapter 30B of the Massachusetts General Laws). However, this reference to the law was insufficient as an agency policy, since it did not delineate the specific processes and procedures that the Authority had established to ensure compliance with this legislation.

DHCD's Accounting Manual (July 2004) mandates that local housing authorities (LHAs) adopt a procurement policy. Section 16C of the manual states,

It is necessary that all LHAs have a formal stated policy to control the purchases and contracts for equipment, materials, supplies and services.

It appears that the Authority did not have its own specific policies and procedures because it considered Chapter 687 its procurement policy. In the absence of a formal stated policy containing its own specific processes and procedures, Authority officials told us that the staff used past practices as guidelines for how to carry out the procurement process. As a result, the Commonwealth has less assurance in the integrity of the Authority's procurement process.

However, the Authority's board of commissioners did adopt an updated policy at its November 5, 2012 board meeting that addressed our initial concerns and appears to be in compliance with DHCD guidelines.

Recommendation

During our audit fieldwork, the Authority's board of directors approved the implementation of a procurement policy that we determined was in compliance with applicable statutory and regulatory requirements and DHCD guidelines. We believe the actions taken by the Authority in this area were appropriate. The Authority should ensure that this newly adopted policy is kept current, communicated to all staff members, and consistently followed. Further, the Authority's management plan should be routinely updated by the Executive Director with approval from the board to include all applicable and up-to-date Authority and DHCD policies and procedures, including those that relate to procurement.

Auditee's Response

The [Authority's] Board of Commissioners updated the agency's procurement process during the audit. As we explained when we met with you and your staff, this was part of an ongoing review and revision of the Authority's policies.

The Board and the agency's management team are fully committed to achieving and maintaining full compliance with the Commonwealth's procurement laws. . . . We believe that it would also be appropriate to report that [our procurement officer] is close to achieving [Massachusetts Certified Public Purchasing Official Program] certification, and that [our administrative coordinator] is also taking courses toward certification.

Auditor's Reply

We recognize that the Authority has taken steps toward improving the overall operations of the agency and continues to do so. We note this exception because during the audit period, the updated documented procedures did not exist. It is important that the agency fully implement and periodically update these control procedures to ensure that the assets of the Commonwealth are being used in the most economical and efficient manner in compliance with applicable laws, rules, and regulations.

2. The Authority did not follow Chapter 30B guidelines regarding bidding and written contracts.

The Authority has been using the services of an IT vendor since 1998 and paid this vendor a total of \$25,418 and \$2,680 in calendar years 2010 and 2011 respectively. Our testing showed that contrary to the requirements of Chapter 30B of the General Laws, the Authority never used a competitive procurement process to procure these services. As a result, the procurement process lacked integrity and the Authority cannot be certain that it received the best price for these services. We also found that although this vendor had been providing services to the Authority for more than 15 years, the

Authority never entered into a formal written contract with the vendor that clearly defined the duties and responsibilities of all parties. As a result, the Authority lacked a mechanism to monitor this vendor's performance and to protect itself from any legal issues (e.g., claims for nonperformance of services, liability claims for any property damage or personal injury) that could arise.

a. Services Procured without Bids

Chapter 30B of the General Laws, the Uniform Procurement Act, governs the procedures to be followed in obtaining goods and services. Specifically, Sections 4a – 4c of the law state,

- (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 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.*

In addition, Section 2 of Chapter 30B defines “sound business practices” as “ensuring the receipt of favorable prices by periodically soliciting price lists or quotes.”

Further, for procurements in excess of \$25,000, Chapter 30B, Section 5, of the General Laws states,

Except as permitted under section six or section eight, award of procurement contracts in the amount of \$25,000 or more, other than contracts for the procurement of real property, shall conform to the competitive sealed bidding procedures set forth in this section.

Despite these requirements, Authority officials stated that the IT consultant services provided by this vendor were not put out to bid, nor were quotes solicited at any time. Authority management told us that this was because the vendor had been consulting with the Authority for at least 15 years. However, because the Authority did not use a competitive procurement process to obtain these services, the process lacked the integrity that would be afforded by a competitive process, and the Authority cannot be certain that it received these services at the lowest cost.

b. No Contract for IT Services

We found that the Authority had not engaged the vendor with a contract as required by Chapter 30B, Sections 17(a) and 17(b), of the General Laws. This section states,

(a) All contracts in the amount of five thousand dollars or more shall be in writing, and the governmental body shall make no payment for a supply or service rendered prior to the execution of such contract.

Without a formal written contract with this vendor, as required by Chapter 30B, that clearly defined the duties and responsibilities of all parties, the Authority lacked a mechanism to monitor the vendor's performance and to protect itself from any legal issues (e.g., claims for nonperformance of services, liability claims for any property damage or personal injury) that could arise.

When we brought this to the attention of the Authority's management, they agreed that a contract should be established outlining the specific terms and scope of the services to be provided, as well as the rate of compensation.

Recommendation

The Authority should establish written contracts with its vendors detailing the scope of service, including the term, deliverables, and expected rate of compensation.

Auditee's Response

The audit found one instance of non-compliance with the public bidding process under 30B during the two year audit period. While [the Authority] does not dispute that it did not follow procedures correctly in this instance, we do not believe that this one instance merits the general conclusion that the Authority did not maintain adequate internal controls of the procurement of goods and services during this time period.

Auditor's Reply

Although OSA only identified one instance of noncompliance with the requirement to enter into written contracts with vendors for purchases of \$5,000 or more, this instance demonstrates the importance of documented internal control procedures that are available, understood, and fully implemented by the Authority's staff. Such procedures will enable staff members to identify transactions or contracts that may not comply with the General Laws.