



Issue Date	March 21, 2012
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Audit Report Number	2012-BO-1003
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TO: Robert P. Cwieka, Acting Director, Public Housing, 1APH

FROM: 
John A. Dvorak, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: The Medford Housing Authority, Medford, MA, Needs To Improve Rent Reasonableness Determinations, Procurement, and Enforcement of Housing Quality Standards

HIGHLIGHTS

What We Audited and Why

We audited the Housing Choice Voucher and Federal public housing programs at the Medford Housing Authority due to a complaint received by the U.S. Department of Housing and Urban Development (HUD). Our overall audit objective was to determine whether the Authority had acceptable management practices to efficiently and effectively administer its housing programs while providing decent, safe, and sanitary housing in compliance HUD requirements and its annual contributions contract.

What We Found

The Authority did not always administer its Housing Choice Voucher and public housing programs in accordance with HUD regulations and its annual contributions contracts. It failed to conduct a proper rent reasonableness study to ensure that rents paid for assisted units were reasonable in relation to rents charged for comparable unassisted units. As a result, \$7.8 million in housing assistance paid during the period July 2010 to September 2011 was not properly supported.

The Authority also did not follow required procurement practices and procedures. The deficiencies identified included not performing cost estimates before soliciting bids, selecting contractors or architects without proper or adequate competition, not following HUD procedures for interagency agreements, not justifying noncompetitive awards, and paying for services or work performed without a contract. In addition, the Authority failed to maintain a complete contract register. As a result, it could not assure HUD that its procurement process was fair and equitable and it obtained the most favorable prices for more than \$1.3 million charged to Federal programs.

In addition, the Authority did not enforce HUD's housing quality standards including ensuring that reinspections of its Housing Choice Voucher program units were performed in a timely manner or units were abated, when required. The Authority paid landlords \$36,774 in housing assistance for 31 units reviewed that did not meet HUD's housing quality standards.

Also, a lack of controls over the use of credit cards issued in the name of the Authority to five of the Authority's employees and a concern regarding the excessive subsistence allowance for overnight travel were addressed in a separate letter to the Board of Commissioners.

What We Recommend

We recommend that the Director of Public Housing require the Authority to conduct proper rent reasonableness determinations, using all nine of the evaluation factors required by HUD and provide supporting documentation to show that rents were reasonable. We also recommend that the Director require the Authority to conduct an independent cost analysis for each of the procurements making up the more than \$1.3 million charged to Federal programs to ensure that they were reasonable and supported. For any amounts that cannot be supported, HUD should require the Authority to reimburse the HUD programs from non-Federal funds. Additionally, the Authority must ensure that it complies with HUD rules and regulations and its own Federal procurement policies that require performing independent cost estimates for each procurement, soliciting bids or price quotes, maintaining documentation supporting the basis for contract awards, and executing written contracts for all procurements.

Additionally, we recommend that the Director require the Authority to develop and implement a written policy to ensure the timely reinspection of units and the abatement of housing assistance payments to landlords. The Authority must repay the Housing Choice Voucher program \$36,774 from non-Federal funds for ineligible housing assistance payments made to landlords for units that were not properly abated.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority a draft report on February 21, 2012, and held an exit conference with officials on February 24, 2012. The Authority provided written comments on March 9, 2012. The Authority agreed with finding 3, and partially agreed with findings 1 and 2. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing. The United States Congress established public housing to promote the general welfare of the United States by assisting cities, such as Medford, MA, to provide decent and safe dwellings for low-income families. The U.S. Department of Housing and Urban Development (HUD) disperses funds to public housing agencies under annual contributions contracts to provide funding for housing assistance for eligible, low-income families.

In addition, the Act was amended by the Quality Housing and Work Responsibility Act of 1998 to create the Section 8 Housing Choice Voucher tenant-based program. The program is funded by HUD and allows public housing authorities to pay HUD subsidies directly to housing owners on behalf of the assisted family.

The Medford Housing Authority was established in 1948. The Authority is an autonomous local government subdivision which owns, manages, and maintains subsidized public housing developments and subsidized leased housing programs within Medford, MA. It administers Federal public housing, State public housing, the Federal Housing Choice Voucher program, and the Massachusetts Rental Voucher Program. The Authority is overseen by a five-member board of commissioners, including the executive director who is responsible for the Authority's day-to-day operations.

HUD and the Massachusetts Department of Housing and Community Development funded the Authority a combined total of \$17.4 million in fiscal years 2009 and 2010. The Authority manages 481 Federal public housing units, 146 State public housing units, and 225 State public housing units converted to Federal public housing units. In addition, it administers 987 housing choice vouchers and 15 Massachusetts rental vouchers.

Our overall audit objective was to determine whether the Authority had acceptable management practices to efficiently and effectively administer its housing programs while providing decent, safe, and sanitary housing in compliance HUD requirements and its annual contributions contract. The specific subobjectives of the audit were to determine whether (1) contract rents were reasonable and based on rent reasonableness factors; (2) housing units complied with housing quality standards; (3) the Authority followed HUD procurement regulations and its own procurement policy; (4) credit card transactions were reasonable, eligible, and adequately supported; (5) applicants on the public housing waiting list were appropriately housed in accordance with regulations; and (6) controls over tenant fraud recoveries were adequate.

RESULTS OF AUDIT

Finding 1: The Authority Approved Rents Without Performing Adequate Rent Reasonableness Determinations

The Authority failed to properly ensure that rents paid for assisted units were reasonable in relation to rents charged for comparable unassisted units. This condition occurred because the Authority failed to complete a rent reasonableness study in accordance with HUD regulations that require nine factors to be evaluated. Without a proper rent reasonableness study, the Authority may have subsidized units at rents that were lower or higher than those considered reasonable. As a result, \$7.8 million in rental subsidies was not properly supported.

Rent Reasonableness Determinations Did Not Evaluate All Nine Factors

The rent reasonableness determinations we reviewed showed that the Authority evaluated two factors when it conducted an annual rent reasonableness determination and unit housing quality inspections. The Authority used an online service to compare the unit price with the rental prices in that unit's zip code. This service allowed its clients to enter a zip code, the number of bedrooms in the dwelling, and the amount of rent, and it would compare the rental price with local property listings from a related company's database to determine whether a unit's rent was reasonable. Proper rent reasonableness determinations require the evaluation of nine factors, but the online service used only two of the nine factors: location and size of the unit. The online service did not comment on quality, unit type, age of the contract unit, amenities, housing services, maintenance provided, or utilities provided. Finally, the online service did not identify whether any of the other properties in its report included assisted units as well as unassisted units. HUD requires that a determination of rent reasonableness be based on the evaluation of nine factors. These factors are (1) location, (2) quality, (3) size, (4) unit type, (5) age of the contract unit, (6) amenities, (7) housing services, (8) maintenance provided by the owners, and (9) utilities to be provided by the owner in accordance with the lease.¹ HUD also requires that in each case in which a housing authority is required to determine rent reasonableness, the housing authority document its decision and the basis for its decision in a tenant's file. For example, a tenant's file must contain information on the unassisted units used for comparison.²

¹24 CFR (Code of Federal Regulations) 982.507, Rent to owner: Reasonable rent, (b) Comparability

² Housing Choice Voucher Program Guidebook 7420.10G, page 189

The Authority believed the online service saved time and was more efficient than other methods for determining rent reasonableness. Before using the online service, the Authority had compiled data from the local newspapers, but the employees compiling the data said that it was difficult to find sufficient comparable units using this method. Most of the Authority's rented units were small properties, the owners of which owned only one or two small rental properties. The Authority noted that getting quality information about the rental market was becoming more time consuming and more difficult, as many smaller owners did not advertise their units. As a result, advertised rental prices were available only for the larger conglomerate renters, and the Authority believed that the large conglomerate renters charged higher rents. However, although the Authority had difficulty in determining rent reasonableness, it did not consider whether it needed to hire additional outside assistance for conducting rent reasonableness determinations.

When we discussed the missing factors with the Authority in October 2011, it acknowledged the online service's shortcomings. However, it indicated that it compensated for the shortcomings in the determinations. When we evaluated a representative nonstatistical sample of rent reasonableness determinations, we did not find evidence that the Authority complied with HUD regulations for rent reasonableness. The nonstatistical sample examined rent reasonableness determinations for 20 tenants for their period of tenancy, which overlapped our audit period of October 1, 2009, to September 2011,³ but none contained information regarding all nine factors. Without proper rent reasonableness determinations, this subsidy was not properly supported. During the period July 2010 to September 2011, the Authority drew down more than \$7.8 million in subsidies for the Housing Choice Voucher program.

**Rent Reasonableness is an
Evaluation Factor for SEMAP**

HUD requires public housing authorities administering Housing Choice Voucher programs to submit an annual Section 8 Management Assessment Program (SEMAP) to HUD within 60 days after the end of its fiscal year. The information from the authority concerns the performance of the authority and provides assurance that there is no evidence of seriously deficient performance. HUD uses the information and other data to assess the authority's management capabilities and deficiencies. One of the items assessed in the SEMAP is rent reasonableness, and the Authority awarded itself the full 20 points. The Authority reported that it had implemented a reasonable written method to determine and document for each unit leased that the rent to owner was reasonable based on current rents for

³ Our testing showed that the Authority used the online service from July 2010 to September 2011.

comparable unassisted units. However, the Authority's methodology did not take into consideration all nine factors of the Authority's process for rent reasonableness, and therefore, it did not deserve the full 20 point. As such, the 2011 SEMAP submission needs to be rescored.

Conclusion

The Authority failed to properly ensure that rents paid for assisted units were reasonable in relation to rents charged for comparable unassisted units. It approved rents without evaluating all nine factors required for rent reasonableness determinations. The online service used by the Authority was not efficient because it evaluated only two of the nine factors. Without a proper rent reasonableness determination, the Authority may have subsidized units at rents that were lower or higher than those considered reasonable. As a result, \$7.8 million in rental subsidies was not properly supported.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to

- 1A. Develop written policies and procedures regarding rent reasonableness studies.
- 1B. Reexamine the units that had determinations conducted between July 2010 and September 2011 and recoup any funds overpaid to landlords or repay \$7,876,534 from non-Federal funds to the housing assistance payment reserve account if the determinations cannot be properly supported.
- 1C. Evaluate whether the Authority needs to hire additional outside assistance to conduct an annual rent reasonableness determination study using all nine factors in 24 CFR 982.507.
- 1D. Re-score the 2011 Section 8 Management Assessment Program submission to correct points for indicator 2 reasonable rent.

RESULTS OF AUDIT

Finding 2: The Authority Failed To Follow Proper Procurement Procedures

The Authority did not always follow the required procurement practices and procedures. The deficiencies included (1) failure to perform independent cost estimates before soliciting bids or proposals, (2) selecting contractors without soliciting competition, (3) failure to follow HUD procedures for procurements under cooperative and interagency agreements, (4) contract not properly readvertised to reflect change in scope of work , (5) awarding contracts by noncompetitive proposal without justification, (6) HUD regulations for competitive proposals not followed , and (7) paying for services or work performed without a contract. In addition, the Authority failed to maintain a complete contract register. These conditions occurred because the Authority did not implement effective management controls over the procurement process. As a result, it could not assure HUD that its procurement process was fair and equitable and that it obtained the most favorable prices for items purchased totaling more than \$1.3 million that was charged to Federal programs.

A Majority of Procurements Reviewed Had Deficiencies

We reviewed 26 of the Authority's procurements or contracts relating to construction and services. For 21 of the 26, we identified at least 1 violation of HUD regulations or the Authority's procurement policy. (see appendix C).

Independent Cost Estimates Were Not Performed

For six procurement actions, the Authority did not perform independent cost estimates. An independent cost estimate prepared before receipt of bids or proposals ensures that the costs are reasonable. HUD regulations require that a cost or price analysis be performed in connection with every procurement action before bids or proposals are received.⁴ The Authority's policy dictates that an independent cost estimate be prepared in advance of each solicitation or contract modification.

⁴ 24 CFR 85.36(f)

Contractors Were Selected Without Competition

The Authority could not furnish documentation to substantiate that it solicited price or rate quotations from an adequate number of sources when procuring services. For ten procurements, the Authority did not provide sufficient documentation to show that price or rate quotations were obtained. The executive director stated that since certain contractors or vendors were hired before his arrival at the Authority, he believed that he should not be held accountable for these infractions. However, a housing authority must conduct all procurement in a manner to provide full and open competition and maintain records to show the history of procurement.⁵ Also, a housing authority must solicit price quotations from several companies to achieve the lowest reasonable cost.⁶ The Authority's procurement policy requires soliciting price quotations to not only achieve the lowest reasonable cost, but also provide increased fair access to the economic opportunities created through its procurement process.

HUD's Procurement Policy Regarding Use of Interagency Agreements Was Not Followed

The Authority did not follow HUD policy for procurements via interagency agreements. To foster greater economy and efficiency, housing authorities are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services. Use of intergovernmental agreements can often greatly simplify and expedite the procurement process by relieving the authority of developing specifications or issuing solicitations. Before using an interagency agreement for procurement, the authority should compare the cost and availability of the identified supplies or services on the open market with the cost of purchasing them through another unit of the government to determine whether it is the most economical and efficient method. An authority's procurement files should contain a copy of the intergovernmental agreement and documentation showing that cost and availability were evaluated before the agreement was executed.⁷ The Authority had hired a pest control company and an elevator service company by using such a method (Commonwealth of Massachusetts Procurement and Solicitation System). However, the Authority's procurement files did not contain evidence of an intergovernmental agreement and documentation showing that cost and availability were evaluated before the agreement was executed.

⁵ 24 CFR 85.36(c)(1) and (b)(9)

⁶ HUD Handbook 7460.8, paragraph 5-3(A)

⁷ HUD Handbook 7460.8, sections 14-1 and 14-2

Contract Should Have Been Readvertised to Reflect Change in Scope of Work

The Authority did not follow proper procedures when it awarded a contract for construction work at its Tempone Manor project. It invited sealed bids from contractors for the replacement of common area windows and doors at an estimated cost of \$95,000. Nine companies inspected the project and reviewed contract documents. Only two companies submitted bid proposals for the specific work sited in the advertisement; one bid was for \$92, 979, and the other was for \$185,000. The Authority awarded the contract to the lowest bidder, but it was not known why a company would submit a bid for almost twice the estimated cost (\$92,000 compared to \$185,000). Based on a review of the contract and the “application for certificate of payment,” the work entailed replacement of windows only with no evidence that replacement of doors was included in the work. The Authority reported that the cost of the work was \$62,592, but only \$46,900 of this amount was supported. Since the work excluded replacement of common area doors, the Authority should not have awarded this contract before the procurement was readvertised to reflect the change in the scope of work.

A Noncompetitive Contract Was Not Justified

The Authority did not maintain records that would justify awarding a contract by noncompetitive proposal for the installation of a solar thermal domestic hot water system at the Authority’s Saltonstall Building. In addition, the Authority failed to perform a cost analysis. The first time the Authority advertised the contract, there were no bidders, and the second time only one bid was received. The Authority also claimed that it had a short window of opportunity and wanted to take advantage of a \$150,000 grant and rebates from the utility company. HUD’s procurement regulations provide that if after solicitation of a number of sources, competition is determined inadequate, the award of a contract must not be made unless there is written justification as to the necessity of using the noncompetitive proposal method and a cost analysis is performed to verify the reasonableness of the price.⁸ However, the Authority did not maintain written justification and did not perform a cost analysis.

⁸ HUD Handbook 7460.8, sections 8.4 and 8.5

HUD Regulations for Competitive Proposals Not Followed

The Authority failed to follow HUD procurement regulations for competitive procurements. It did not prepare the appropriate requests for proposals and document the method for conducting technical evaluations for architects hired as required by HUD regulations. We reviewed three of the architectural and engineering firms associated with three of the construction projects included in our review. Only one of the procurements (bathroom modifications) had a request for proposals; however, this request for proposals did not document evaluation factors and their importance. In addition, the Authority had not established a method for conducting technical evaluations of the proposals received. HUD regulations dictate that when a procurement is made by competitive proposal, the following requirements apply: (i) Requests for proposals will be publicized and identify all evaluation factors and their importance; (ii) Proposals will be solicited from an adequate number of qualified sources; (iii) A method must exist for conducting technical evaluations of the proposals received and for selecting awardees.⁹ Authority staff was unfamiliar with HUD regulations regarding competitive procurements.

Services Were Paid For Without Contracts

We found ten occurrences in which the Authority paid for services and work performed without a contract. Without a contract in place, there is no basis for determining whether services provided are in accordance with contract terms or that amounts billed are reasonable. Not having a contract in place put the Authority at risk for overbilling and inadequate service. HUD requires authorities to maintain source documents and files that support the financial transactions recorded in the books of account and that provide an adequate audit trail. These documents include such items as contracts.¹⁰ The Authority's procurement policy requires contracts to be in writing, clearly specifying the desired supplies, services, or construction.

Contract Register Was Incomplete

The Authority's contract register was incomplete. It did not maintain a complete contract register for all service related and construction companies operating at the Authority. HUD requires that housing authorities maintain a contract system,

⁹ 24 CFR 85.36(d)(3)

¹⁰ Public and Indian Housing Low-Rent Technical Accounting Guide, paragraph II(8)

which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.¹¹

Conclusion

The Authority did not establish and implement effective management controls over the procurement process for procurements totaling more than \$1.3 million charged to the HUD program. As a result, it could provide only limited assurance that its procurement process was fair and equitable and it obtained the most favorable prices or the best quality of services for the items purchased. A housing authority must solicit price quotations from several entities or companies, not only to achieve a reasonable cost, but also to provide increased fair access to the economic opportunities created through an open procurement. A written contract not only serves to support the agreed-upon cost, but also defines services expected and describes the responsibilities of each party.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to

- 2A. Conduct an independent cost analysis for each of the procurements to ensure that \$1,366,147 charged to Federal programs was reasonable and supported. For any amounts not reasonable and supported, HUD should require the Authority to reimburse the HUD programs from non-Federal funds.
- 2B. Implement controls over the procurement process that require performing independent cost estimates for each procurement, soliciting bids or price quotes, and maintaining documentation supporting the basis for contract awards.
- 2C. Execute written contracts for all procurements and maintain a contract register for the related contracts.

¹¹ 24 CFR 85.36(b)(2)

RESULTS OF AUDIT

Finding 3: Housing Choice Voucher Program Units Were Not Always Reinspected in a Timely Manner or Properly Abated

The Authority did not always ensure that reinspections of its Housing Choice Voucher program units were performed in a timely manner or properly abate housing assistance payments. This condition occurred because the Authority did not have procedures or an adequate written policy regarding the timely reinspection of units or a policy for abating units, as required. As a result, landlords were paid \$36,774 in housing assistance for 31 units reviewed that did not meet HUD's housing quality standards.

Reinspections Were Not Performed in a Timely Manner

The Authority did not always perform timely reinspections of Housing Choice Voucher program units. We selected 62 reinspections to review and found that 32 (52 percent) were not performed in a timely manner. These reinspections were performed an average of 48 days late, and the range was from 9 to as many as 245 days late.

In one instance, a unit that was inspected on November 30, 2009, did not pass reinspection until July 6, 2010. In another instance, a unit that was inspected on February 18, 2010, did not pass reinspection until June 9, 2010. Further, a unit that was inspected on May 24, 2010, did not pass reinspection until September 9, 2010. Some of the violations identified in the inspection reports included mouse activity from a hole in the kitchen ceiling, an inoperable carbon monoxide detector, rats in the basement, and a blocked exit in an apartment. If the Authority had a written enforceable policy regarding timely inspections, this occurrence might have been avoided.

Rents Were Not Abated When Required

The Authority should have abated units, considering the length of time it took to correct deficiencies. HUD requires that all life-threatening deficiencies be corrected within 24 hours of inspection and all other cited deficiencies be corrected no more than 30 calendar days from the date of the inspection unless the Authority has extended the time for compliance. The Authority must abate housing assistance

payments when the owner does not comply with a notification of deficiency. Owners are not entitled to housing assistance payments from the first of the month following the violation notice until the day the unit passes inspection.¹²

The Authority should have abated 31 units with uncorrected violations and not paid \$36,774 in housing assistance to landlords whose units did not meet HUD's housing quality standards. Authority officials acknowledged that they did not have an abatement policy. The Authority's practice was to hold checks for the housing assistance payments to landlords if a unit did not pass inspection. Once the unit passed inspection, the Authority would release all checks held and continue making monthly housing assistance payments. An Authority official stated that checks could be held for as long as 6 months before the contract with the landlord was terminated. The Authority acknowledged that this practice did not comply with HUD rules and regulations.

Enforcement of Housing Quality Standards is a SEMAP Indicator

HUD requires public housing authorities administering Housing Choice Voucher programs to submit an annual Section 8 Management Assessment Program (SEMAP) to HUD within 60 days after the end of its fiscal year. The information from the authority concerns the performance of the authority and provides assurance that there is no evidence of seriously deficient performance. HUD uses the information and other data to assess the authority's management capabilities and deficiencies. One of the items assessed in the SEMAP is the enforcement of Housing Quality Standards. The Authority filed its 2011 SEMAP and claimed the maximum points for indicator 6 (housing quality standards enforcement). The Authority should develop and implement policies and procedures to abate landlord housing assistance payments for units that do not meet HUD Housing Quality Standards. The Authority should be required to rescore its 2011 SEMAP submission for housing quality standards enforcement.

Conclusion

The Authority did not perform timely reinspections of Housing Choice Voucher program units that failed annual housing quality standards inspections. It did not reinspect 32 of the 62 units inspected (52 percent) in a timely manner. In addition, the Authority did not properly abate units that did not meet HUD's housing quality standards. As a result, landlords were paid \$36,774 in housing assistance for 31 units that did not meet HUD's housing quality standards. Also,

¹² HUD Guidebook 7420.10G, sections 10.6 and 10.7

the Authority needs to rescore its 2011 SEMAP submission to correct points for indicator 6, housing quality standards enforcement..

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to

- 3A. Develop and implement a written policy to ensure timely reinspection of units.
- 3B. Develop and implement a written policy for the abatement of housing assistance payments to landlords.
- 3C. Repay the Housing Choice Voucher program \$36,774 from non-Federal funds for ineligible housing assistance payments made to landlords for units that were not abated.
- 3D. Rescore the 2011 SEMAP submission to correct points for indicator 6, housing quality standards enforcement.

SCOPE AND METHODOLOGY

We performed the audit at the Authority from July 30 to December 31, 2011. Our fieldwork was completed at the Authority's main office located at 121 Riverside Avenue, Medford, MA. The audit generally covered the period October 1, 2008, to September 30, 2010, and was extended when necessary to meet our objective. To accomplish our audit objective, we

- Reviewed applicable laws, regulations, HUD handbooks and guidebooks, HUD public housing notices, annual contributions contracts, the Authority's administrative plan, and the Authority's policies and procedures.
- Conducted discussions with Authority officials to gain an understanding of the Authority's financial structure, cost allocation, accounting controls, procurement practices, and tenant occupancy.
- Reviewed independent public auditors' reports as part of our testing for control weaknesses and reviewed media articles related to the Authority and its staff.
- Evaluated the most current HUD SEMAP reports to identify potential issues or concerns. We also reviewed the financial data sheet filed with the Real Estate Assessment Center to determine the Authority's financial condition.
- Evaluated internal controls and conducted sufficient tests to determine whether the controls functioned as intended and reviewed computer controls to identify potential weakness related to our objectives.
- Reviewed records of Authority board minutes and noted information relevant to the housing programs.
- Reviewed organization and staffing to determine whether such organization and staffing promoted efficiency, economy, and effectiveness in the administration of the Authority's programs.
- Evaluated the Authority's allocation plan in conjunction with written job descriptions and its organizational chart to determine whether allocation of costs between HUD and State programs were reasonable.
- Determined whether the Authority complied with HUD rules and regulations related to rent reasonableness for the Housing Choice Voucher program. We selected a representative, nonstatistical sample of 20 families for review and determined whether contract rents charged to Section 8 tenants exceeded rents charged for comparable unassisted units in the same project. The 20 families were selected from a universe of 994 tenant families covering the period December 1, 2008, through September 30, 2010.

- Evaluated the Authority's procurement practices by selecting for review the specific service- and construction-related companies or types of businesses (for example, laundry and clothing or uniform services) in which we were informed that procurement deficiencies might exist. We focused on the contracts identified in the complaint. We reviewed a total of 26 procurements, 12 of which were construction (included architecture and engineering firms) related and the other 14 of which were service-related contracts. For those procurements, we reviewed written agreements, bids or quotes solicited, and change orders.
- Selected a sample of 20 unit inspections to determine whether the units were reinspected in a timely manner and properly abated. We chose to limit our inspections to those annual inspections that failed in 2010 and 2011. Using the Excel random function, we selected the 20 inspections from a universe of 465 failed inspections. If applicable, we calculated the ineligible housing assistance payments.
- Determined whether the Authority obligated the Public Housing Capital Fund grant funds it received under the American Recovery and Reinvestment Act for eligible projects, whether it had adequate management controls governing the expense and obligation process, and whether it followed proper procurement procedures in accordance with HUD regulations.

We reviewed potential concerns brought to HUD's attention in a written complaint. Based on OIG's review some of these concerns did not actually result in findings. For example, we

- Reviewed the Authority's practices for handling inventory of nonexpendable equipment to determine whether the Authority managed and controlled its inventory effectively and efficiently. We determined that the Authority maintained proper control over inventory of nonexpendable equipment.
- Obtained waiting lists for family and elderly applicants, showing all new applicants from October 1, 2008, to September 30, 2011, and listings of names of applicants housed in family and elderly public housing units covering the same timeframe. We compared application dates shown in the waiting lists to the listings of individuals housed for inconsistencies. We followed up on instances in which it appeared that recent applicants may have been unfairly housed ahead of applicants who applied for housing much earlier. We reviewed applicant files as deemed necessary. We did not find any concerns regarding the public housing waiting list.
- Reviewed all credit card charges, including travel, for the period October 1 2008, to September 30, 2011, for assurance that charges were reasonable, eligible, and adequately supported. Federal funds were not used to pay credit card charges; therefore, we have no authority to review the use of these funds.
- Evaluated the policies and procedures implemented for tenant fraud recoveries. We did not find any concerns with controls over the tenant fraud recovery process.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls over rent reasonableness including the existence of rent reasonableness determinations, whether the determinations address all nine factors, and whether results are adequately supported.
- Controls over procurement including the existence of a contract, the proper solicitation of bid proposals, and the use of full and open competition.
- Controls over inspections in accordance with housing quality standards including the existence of inspections and reinspections, abatements when inspections show that a unit fails to meet housing quality standards, and consistency in the application of abatements.
- Controls over the use of credit cards issued to five Authority employees and the Authority's policy regarding eligible travel costs.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Rent reasonableness determinations did not address all nine factors, and results of the rent reasonableness studies were not adequately supported. (Finding 1)
- The Authority did not have contracts or written agreements between parties for all its procurement activities. (Finding 2)
- The Authority did not have independent cost estimates or technical evaluations for all of its procurements. (Finding 2)
- The Authority did not award all procurement transactions under full and open competition. (Finding 2)
- The Authority did not always ensure that reinspections of its Housing Choice Voucher program units were performed in a timely manner and properly abate housing assistance payments when repairs were not completed. (Finding 3)

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1B		\$7,876,534
2B		\$1,366,147
3C	<u>\$36,774</u>	
	\$36,774	\$9,242,681

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

MEDFORD HOUSING AUTHORITY
121 RIVERSIDE AVENUE
MEDFORD, MASSACHUSETTS 02155

TELEPHONE 781-396-7200
FAX 781-393-9223

TELEPHONE FOR THE DEAF
TDD 1-800-545-1833 EXT. 129

MARCH 9 AM 11:55
COMMUNICATIONS SECTION

March 7, 2012

Mr. John A. Dvorak
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O'Neill Federal Building
10 Causeway St - Room 370
Boston, MA 02222

Re: Audit Report 2012-BO-100x

Dear Mr. Dvorak,

I am providing written comment to the Inspector General's draft; detailing that the Medford Housing Authority (MHA) either concurs, or does not concur, with the audit findings.


Finding #1

The MHA approves rents without performing adequate rent reasonableness determinations.

The MHA does partially concur with this finding. The MHA uses multiple sources for determining rent reasonableness. MHA uses _____, the on-line service as one source. We have found this to be very efficient and non-time consuming. Additionally, _____ is not the only service we use. We also use Page 2 of the Inspection Form which has the 9 factors included for rent reasonableness, a majority of the time.

My inspector pulled a random sample of files and we found that to be the case in those files. The audit sample included 20 files out of approximately 1000 potential files, which is less than 2%. The files we pulled in-house had the proper back-up. MHA would like to propose an alternative to provide assurances that the rents were reasonable. We will re-examine a sample of units to assure the rents we used were in fact reasonable. The MHA will also consider hiring additional outside assistance for conducting rent reasonableness determinations.

The MHA does realize and understand the requirements of 24CFR 982.507, we are looking to update policies, and have reviewed forms to ensure that we are capturing all the information


EQUAL HOUSING OPPORTUNITY

Comment 1

Comment 2

Comment 3

Ref to OIG Evaluation

Auditee Comments

Comment 4

necessary to comply, and will do outreach to realtors, landlords, etc., to increase the rent comps available for analysis.

Finding #2

The MHA failed to follow proper procurement procedures.

The MHA partially concurs with this finding and has taken the necessary steps and reinforced the policies and procedures in order to make sure MHA is in full compliance with all procurement rules and regulations.

MHA did not prepare independent cost estimates for the smaller procurements, but our architects/engineers did for the large jobs. We will adhere to HUD's policies in the future.

MHA had a partial contract register, and we do realize the need to keep it updated and complete. The MHA will reinforce its policy to maintain a complete and up-to-date contract register.

Comment 5

On several of the smaller jobs, the MHA did not have contracts, but according to our in-house attorney, we did have valid signed purchase orders, which are as valid as a contract.

MHA does not concur with the following procurements; which I would like to clarify in detail.

Comment 4

Linwood Construction

MHA hired an A/E who performed an independent cost estimate.

Comment 4

Prism Builders Inc

They were the general contractor for the elevator upgrade job, and the A/E did perform and ICE.

Bay State Contractors & RW Sullivan

MHA converted the 200 unit high rise (the Saltonstall) from electric to gas heat. There were 2 alternates to this job. One was the solar hot water system and the other was a Co-gen system. Both these alternates were deemed too expensive and not done. Then at the 11th hour ABCD, CO., in affiliation with Mass Clean Energy, came forward with a \$150,000 grant for the Solar Hot Water System. The only drawback was that the funds had to be obligated in a short period of time.

Comment 6

RW Sullivan was the A/E for the gas conversion and most familiar with the Solar System, so we contracted with them to prepare a formal RFP for the Solar System. Unfortunately, no one bid on the first RFP. Luckily, on the second RFP, we did receive 1 bid from Bay State Contractors. Bay State was able to do the job on time. MHA received a grant of \$159,000 plus \$40,000 in utility rebates. I'm happy to report that this Solar panel domestic hot water system is providing close to 100% of the domestic hot water for the Saltonstall. MHA is not only saving dollars but more importantly conserving the earth's natural resources.

Comment 7

Ref to OIG Evaluation

Auditee Comments

Comment 8

Straight Up Builders

This is a long time vendor, in place for many years. Once I realized we were paying this much money, I decided to hire our own employee to do all the MHA carpentry jobs. We did hire a full-time carpenter over a year ago, and have stopped using this vendor.

Comment 9

Mystic Paving - MHA did solicit 3 bids for this contractor (see attached). He was the lowest.

Comment 10

CJ Doherty - These were several smaller jobs, and we did solicit competition.

Farley - This is another long time vendor. We will reinforce to all employees that all work, no matter how small, must have competitive proposals and a signed contract.

Casella Waste Services - Same explanation as Farley.

Peerless Premier Appliance - We have every possible document and paperwork except the contract. We have a board vote authorizing the Executive Director to enter into a contract, but we cannot locate the contract.

Comment 11

A-1 Exterminator - This is another long time vendor, but this one is on the State approved vendor list. This vendor has been checked and prices compared by the Commonwealth of Massachusetts, and all housing authorities have an inter-agency agreement with DHCD to use any vendor on their official state approved bid list.

Comment 11

Eagle Elevator - Same explanation as A-1 Exterminator

Finding #3

Housing Choice Voucher Program units were not always re-inspected in a timely manner or properly abated.

The MHA concurs with finding 3. The MHA will strive to do re-inspections in a timely manner and we have instituted a new policy whereby we will begin to abate landlord checks.

In conclusion, the MHA found the review to be helpful and the Inspector General's auditors to be professional and forthright. We believe all concerns have been addressed and corrected.

Respectfully submitted,



Robert Covelle
Executive Director

/rc

Ref to OIG Evaluation

Auditee Comments

PURCHASE ORDER
P.O. 48775

MEDFORD HOUSING AUTHORITY

121 Riverside Avenue
Medford, Massachusetts 02155 — Tel. (781) 396-7200

Ship to below unless otherwise indicated

TO: (HEREINAFTER REFERRED TO AS VENDOR)
Mystic Printing

SHIP TO
Medford Housing Authority
121 Riverside Avenue
Medford, Massachusetts 02155

REQ NO	TERMS CASH DIS 2/10 PROX.	<input type="checkbox"/> NET <input type="checkbox"/>	SHIP VIA	MAT REQ NO	WORK ORDER NO	CONFIRMING PHONE <input type="checkbox"/> VERBAL <input type="checkbox"/>	DATE
ITEM NO	QUANTITY	PROJECT NO	ACCOUNT NO	DESCRIPTION		UNIT PRICE	TOTAL LESS TRADE DIS
				SALES TAX EXEMPT E046-004-946			

FOR MEDFORD HOUSING AUTHORITY
PER <i>[Signature]</i>

ITEM	DATE	QUANTITY RECEIVED	PARTIAL RECEIVING REPORT NO	TOTAL RECEIVED TO DATE	INITIALS
MUSIC	12	1750			
COOPER		2800			
LIBERTY		9,000			

SENT TO ACCOUNTING: / /

MYSTIC PAVING, INC.

Commercial * Residential

Medford Housing Authority
121 Riverside Avenue
Medford MA 02155
Attn: Joan O'Handley

August 19, 2011

ESTIMATE for 121 RIVERSIDE AVE., MEDFORD

- 1. Repair two catch basins
 - a. Location: space # 82 and handicap space in rear, as specified

TOTAL INVOICE DUE ON RECEIPT: \$2,750.00

MEDFORD HOUSING AUTHORITY
VENDOR: Mystic Paving
INVOICE
AMOUNT: 2750.00
ACCOUNT: 4730.09
DATE TO AFFECT: 8.30.11
APPROVAL: [Signature]

Tax ID - ✓

PAYMENT IS DUE AND PAYABLE IN FULL AT THE COMPLETION OF THE WORK.
ALL UNPAID INVOICES OVER 10 DAYS WILL BE ASSESSED 2% COMPOUNDED INTEREST MONTHLY.
281 Middlesex Avenue, Post Office Box 837, Medford MA 02155
781-395-5275 phone * 781-395-2250 fax

OIG Evaluation of Auditee Comments

- Comment 1** We do not concur with the Authority's claim that the on-line service it uses to determine rent reasonableness is efficient. This on-line service is not in compliance with HUD requirements. HUD requires that a determination of rent reasonableness be based on the evaluation of nine factors. These factors are (1) location, (2) quality, (3) size, (4) unit type, (5) age of the contract unit, (6) amenities, (7) housing services, (8) maintenance provided by the owners, and (9) utilities to be provided by the owner in accordance with the lease. As we noted in the report, the online service used only two of the nine factors: location and size of the unit. The online service did not comment on quality, unit type, age of the contract unit, amenities, housing services, maintenance provided, or utilities provided.
- Comment 2** The Authority stated that another source it used to determine rent reasonable, namely page 2 of its inspection form, includes the 9 factors for rent reasonableness, a majority of the time. Based on OIG's review of 20 files, we found that page 2 of the inspection form was either left blank or was missing from the file entirely. In addition, the inspection form did not contain information on the unassisted units used for comparison. This is contrary to HUD regulations that state the tenant files must contain information on the unassisted units used for comparison. HUD requires the person conducting rent reasonableness to provide sufficient information about the evaluation process so that a supervisor or auditor can understand how the comparables were used to determine the appropriate rent for the program units. OIG concluded that sufficient information about the evaluation process was not provided by the Authority.
- Comment 3** Because the Authority failed to properly ensure that rents paid for assisted units were reasonable in relation to rents charged for comparable unassisted units, OIG determined that \$7,876,534 million in rental subsidies was not properly supported. We recommended (1B) that the Authority reexamine the units that had determinations conducted between July 2010 and September 2011 and recoup any funds overpaid to landlords or repay \$7,876,534 from non-Federal funds to the housing assistance payment reserve account if the determinations cannot be properly supported. The Authority proposed an alternative to provide assurances that the rents were reasonable, specifically they recommended re-examing a sample of units to assure the rents it used were in fact reasonable. HUD will need to evaluate the Authority's recommendation that it re-exam a sample of units.
- Comment 4** The Authority did not provide any of the independent cost estimates requested by OIG. OIG had requested independent cost estimates for the work performed by Mill City Landscaping, Linwood Construction, Prism Builders, Inc., Advantage Glass, Bay State Contractors, and C J Doherty, but the Authority failed to provide the documentation. The Authority's implication that it did not prepare independent cost estimates for all procurements violates its own procurement

policy which dictates that an independent cost estimate be prepared in advance of each solicitation or contract modification.

- Comment 5** The Authority admitted that it did not prepare contracts on several jobs, but it did have purchase orders which it considered to be as valid as a contract. A contract not only serves to support the agreed upon cost, but also defines services expected and describes the responsibilities of each party. A detailed discussion of the services expected or a description of the responsibilities of each party missing from a purchase order reduces its effectiveness in obtaining the needed services/products.
- Comment 6** The Authority awarded the architectural and engineering contract (A/E) for the installation of the solar hot water system at the Saltonstall building to R W Sullivan Engineering because they were the A/E for the prior gas conversion at the project and because RW Sullivan was the most familiar with solar systems. These factors did not justify awarding the contract to RW Sullivan. HUD regulations dictate that when a procurement is made by competitive proposal, the following requirements apply: (i) Requests for proposals will be publicized and identify all evaluation factors and their importance; (ii) Proposals will be solicited from an adequate number of qualified sources; (iii) A method must exist for conducting technical evaluations of the proposals received and for selecting awardees.
- Comment 7** The contract for the installation of a solar hot water system at the Saltonstall Building was improperly awarded by noncompetitive proposal. Although no one bid on the first RFP and Bay State Contractors was the only bidder on the second RFP, HUD's procurement regulations provide that if after solicitation of a number of sources, competition is determined inadequate, the award of a contract must not be made unless there is written justification as to the necessity of using the noncompetitive proposal method and a cost analysis is performed to verify the reasonableness of the price. As we stated in the report, the Authority did not maintain written justification and did not perform a cost analysis.
- Comment 8** Our review disclosed that the procurement of Straight Up Builders violated procurement regulations because the vendor was acquired without solicitation and there was no evidence of contract. The Executive Director stated that it stopped using Straight Up Builders once he realized the Authority was paying too much money for the services. However, the Authority continued paying Straight Up Builders until June 30, 2011, which is well past the date (June 1, 2009) the Executive Director was hired.
- Comment 9** The Authority provided documentation to substantiate that it solicited price quotes from three sources before selecting Mystic Paving to repair catch basins at its Saltonstall Building (see attached document, pages 26 & 27). The documentation only shows the name of the vendor and the amount of the quote. We contend that this documentation is insufficient because there is no evidence of the dates of the

quotations, the names of the persons submitting the quotations, or the addresses of the vendors.

Comment 10 The Authority states that it did not solicit competition for several smaller jobs performed by CJ Doherty. This practice violates HUD regulations which dictate that a housing authority must solicit price quotations from several companies to achieve the lowest reasonable cost. This practice also violates the Authority's own procurement policy that requires soliciting price quotations to not only achieve the lowest reasonable cost, but also to provide increased fair access to the economic opportunities created through its procurement process.

Comment 11 The Authority claimed that it had an inter-agency agreement with the Massachusetts Department of Housing and Community Development to use any vendor on the official state approved bid list. HUD states that an authority's procurement files should contain a copy of the intergovernmental agreement and before using an interagency agreement for procurement, the authority should compare the cost and availability of the identified supplies or services on the open market with the cost of purchasing them through another unit of the government to determine whether it is the most economical and efficient method. Our review showed that the Authority's procurement files did not contain evidence of an intergovernmental agreement or documentation showing that cost and availability were evaluated before the agreement was executed.

Appendix C

UNSUPPORTED PROCUREMENT COSTS

Company or vendor	Description of work	Questioned costs ¹³	Deficiencies
Mill City Landscaping	Paving and site work at Weldon Manor	\$0	1
Lindwood Construction	Bathroom modifications a Tempone Manor	0	1
Prism Builders, Inc.	Update elevators at Tempone Manor & Saltonstall Building	0	1
Advantage Glass	Replacement of common area widows at Tempone Manor	46,900	1,4
Bay State Contractors	Installation of Solar Thermal Hot Water System at Saltonstall Building	294,860	1,5
Mystic Paving	Repair catch basins at the Saltonstall Building	2,750	2
C.J. Doherty	Replace hydrants, pave driveways, repair sidewalks at the Saltonstall Building & Tempone Manor	28,750	1,2,7
Straight Up Builders	Work at various sites	342,549	2,7
Capital Construction	Work at various sites	59,400	2,7
CBI Consulting, Inc.	Architect for bathroom modifications at Tempone Manor	28,852	6
R.W. Sullivan Engineering	Architect for solar thermal hot water system at Salstonstall Building	10,594	6,7
Farley	Architect for replacement of common area windows at Tempone Manor	6,468	6,7
Gail Nueber	Consultant wrote grant applications for Authority programs	15,188	2,7
PHI Inspections	Perform Section 8 inspections	30,612	2
Peerless Premier Appliance	Acquisition of 338 electric stoves	115,195	7
Casella Waste Services	Trash removal	51,440	2,7
A-1 Exterminators	Pest control services	204,126	3
North Atlantic Frame & Appliance	Service Authority vehicles	32,845	2,7
Eagle Elevator	General elevator maintenance	74,540	3
John Paul Johnson Jr.	Work on Authority storage and file areas	16,723	2,7
DeCrescenzo Design	Provided spring and winter decorations	4,355	2
		\$1,366,147	

Deficiency Explanations:

1. Failure to perform independent cost estimates before soliciting bids or proposals
2. Selected contractors without soliciting competition
3. HUD procurement policy for use of interagency agreements not followed
4. Contract not properly readvertised to reflect change in scope of work
5. Noncompetitive contract not justified
6. HUD regulations for competitive proposals not followed
7. Paying for services or work performed without a contract

¹³ No questioned costs for several construction contracts that were bid properly