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New England Office of Regional Inspector General for Audit, 1AGA  
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Memorandum Number: 2004 BO 1801  
Issue Date: December 16, 2003

MEMORANDUM FOR: Robert P. Cwieka, Acting Director, New England Office of  
Public Housing, 1APH

FROM: Barry L. Savill, New England Regional Inspector General for  
Audit, 1AGA

SUBJECT: Audit Survey of Boston Housing Authority's – Capital Fund  
Program

### INTRODUCTION

We performed an audit survey of the Boston Housing Authority's (BHA) Capital Fund Program (CFP) procurement process. The audit objective was to assess the appropriateness of the BHA's CFP procurement process, for the period April 1, 2000 through March 31, 2003, to ensure that the BHA was:

- Assessing management controls to safeguard CFP funds from possible waste, loss, and misuse of funds.
- Managing its CFP program and operations efficiently, effectively, and economically.
- Adhering to the terms and conditions of the Voluntary Compliance Agreement (VCA) that was created because the needs for accessible units for persons with impairments were not adequately being met.
- Complying with the terms and conditions of its Annual Contributions Contract, HUD's Capital Fund Program regulations, Massachusetts General Law 30B - Uniform Procurement Act, Chapter 149, Sections 44A-J, Competition for Bidders on Construction, and HUD requirements under 24 CFR 85.36.

For the contracts selected, the BHA adhered to its own procurement policy, Massachusetts General Law 30B - Uniform Procurement Act, Chapter 149, Sections 44A-J, Competition for Bidders on Construction and HUD requirements under 24 CFR 85.36. In addition, contract amounts to include change orders and payments, are being charged to the appropriate Capital Fund general ledger accounts in accordance with HUD CFP Program Guidelines. In addition, the BHA is adhering to the requirements of the VCA.

BHA's General Ledger Accounts for CFP were reconciled to HUD's Line of Credit Control System (LOCCS). CFP accounts payable disbursements selected for review were correctly calculated and charged to the appropriate Capital Fund general ledger accounts. BHA's cost allocation methodology was reasonable.

## **BACKGROUND**

The Boston Housing Authority (BHA) owns and operates 51 Housing Developments with 10,228 units scattered throughout the City of Boston. The BHA manages 38 Developments and 13 Developments are privately managed. The Family Program is comprised of 6,668 units and the Elderly/Disabled Housing Program has 3,560 units.

The BHA also owns and operates 16 state subsidized housing developments with 2,435 units scattered throughout the City of Boston including 134 elderly/disabled units and 2,301 family units. The Commonwealth of Massachusetts and the Department of Housing and Community Development established the basic guidelines and regulations that govern the state-funded program.

The BHA oversees the operation of three HOPE VI mixed-income family developments. Two of these properties (Mission Main and Orchard Gardens) are privately owned and managed and provide 823 public housing and 156 market rate housing units. The third HOPE VI site is Maverick Gardens. Maverick Gardens has 413 units currently to be replaced by 305 public housing and 91 market units.

The BHA is under the control of one person, the Administrator, who is appointed by and serves under the direction of the Mayor of Boston pursuant to the dictates of Chapter 88 of the Acts of 1989, an act relative to a form of governance for the BHA. The overall responsibility for the performance of the BHA rests with the Mayor and the Administrator.

The BHA's Administrator established an Executive Committee to manage and control the day-to-day operations of the BHA. The Executive Committee recommends to the Administrator regarding the acceptability and/or appropriateness of procurement matters, funding documents, agency policy statements, and other matters requiring the Administrator's review, acceptance, and/or execution. Committee members individually review informational packages entitled "Executive Committee Items" which are submitted to the committee as a whole by Department Directors or their designees. Items acceptable to the Executive Committee are recommended to the Administrator for her review and consideration.

The Capital Fund Program (CFP) provides funds annually, since FY 2000, to PHAs for capital and management activities, including: modernization, correcting physical deficiencies, financing, and development of public housing. The CFP is noncompetitive and is awarded based on a formula that is based on the existing and accrual modernization needs of the PHAs. The Quality Housing and Work Responsibility Act of 1998 converted HUD's prior modernization initiatives – Comprehensive Grant Program (CGP) and the Comprehensive Improvement Assistance Program (CIAP) – into the Capital Fund Program. Until completion of such rulemaking, the regulations at 24 CFR 968 continue to apply to assistance made available through the CGP and CIAP. The provisions of 24 CFR 968, with respect to a PHA's annual statement/action plan, has been replaced by Public Housing Agency Plan rule at 24 CFR 903. The housing needs of people with disabilities, accessible units, and compliance with Section 504, the ADA, and the FHA are required to be addressed in accordance with 24 CFR 903.7.

For our audit period April 1, 2000 through March 31, 2003, total CFP funds awarded \$86,877,425 and the amount expended was \$29,370,889.

<i>Grant Number</i>	<i>Amount of CFP Awarded</i>	<i>Amount Expended</i>
<b>MA06P002501-00</b>	30,067,339	18,732,261
<b>MA06P002501-01</b>	28,760,813	8,982,941
<b>MA06P002501-02</b>	<u>28,049,273</u>	<u>1,655,687</u>
<b>Total</b>	\$86,877,425	\$29,370,889

## METHODOLOGY AND SCOPE

To accomplish our objective, we:

- Reviewed Federal Procurement Standards of 24 CFR 85.36, Massachusetts General Law 30B - Uniform Procurement Act, and Chapter 149, Sections 44A-J, Competition for Bidders on Construction. In addition, we reviewed the BHA's organizational and administrative structure, procurement policies, and record of log maintained by the Administrator.
- Interviewed BHA's Management Information System (MIS) coordinator to determine how MIS can assist the OIG auditors in determining the universe of Capital Fund Contracts awarded.
- Interviewed BHA's General Counsel, Senior Contract Attorney, Director of Capital Construction, Chief Procurement Officer, Capital Budget Analyst, Budget Director, Assistant Director of Accounting, Finance and Accounts Director, Civil Rights Director, and Civil Rights Contract and Compliance Coordinator to determine their roles and responsibilities over the CFP program.
- Interviewed Massachusetts Office of Fair Housing and Equal Opportunity Specialists (FHEO), Massachusetts Office of Public Housing (PH) personnel, the Directors' of Capital Construction and Civil Rights to determine if the lines of communication are kept open regarding the implementation of the Voluntary Compliance Agreement (VCA).
- Determined that 195 Capital Fund contracts, representing \$63,519,348 in Capital Funds, were awarded during our audit period. We selected 15 Capital Fund contracts to determine if the Authority adhered to its procurement procedures. We analyzed payments made on the 15 Capital Fund Contracts to determine if contracts and payments were charged to the appropriate Capital Fund general ledger accounts. Our method of selection was based on risk factors such as the dollar value of the contracts, number of change orders, and type of contracts awarded. Our review dealt only with the contracts selected, and the results were not projected to the entire universe. Our selection were as follows:

<i>Type of Contract</i>	<i>Number Reviewed</i>	<i>Amount of Contract (to include Change Orders)</i>
<b>Architect</b>	3	601,300
<b>Construction</b>	3	8,569,459
<b>Consultants</b>	3	294,120
<b>Legal</b>	3	250,000
<b>Other</b>	3	<u>366,991</u>
<b>Total</b>	15	\$10,081,870

- Selected one sole source procurement \$93,928 and one emergency procurement \$90,110 to determine if the BHA adhered to its procurement procedures.
- Reviewed General Ledger Accounts related to the three CFP grants to determine if it could be reconciled to the information reported to HUD via the Line of Credit Control System (LOCCS). We obtained detailed General Ledger activity for the three CFP grants and compared this information to the LOCCS Grant Detail cumulative expenditures reported to HUD as of March 31, 2003.
- Selected 12 CFP related accounts payable disbursements using representative nonstatistical sampling techniques to determine if the BHA adhered to its disbursement procedures. We determined that 1,996 accounts payable disbursements, representing \$26,924,313 in Capital Funds, were disbursed during our audit period. Our sample selection included six disbursements from the high dollar stratum (i.e. \$277,433 to \$937,889) and six from the second stratum (\$0 to \$276,469). This method was used to provide coverage over the largest period for disbursements and allow for expanded statistical sampling if necessary.
- Reviewed the BHA's methodology for allocating and charging payroll expenses to the CFP grants to determine if the methodology was appropriate. We analyzed the BHA Position Schedule: Capital Construction Administrative Salaries, Program Allocation Summary by Department - Central Offices, and the General Ledger Full Account Allocation Report. We examined detailed monthly General Ledger payroll transaction postings.
- Evaluated the BHA's work order procedures related to Health and Safety Violations and performed on-site inspections to verify that work was completed in a satisfactory manner. Selected 27 Work Orders to perform physical inspections to verify that work was completed in a satisfactory manner. Selection based on the number of Health and Safety Violations identified by REAC Inspectors in the PHAS Physical Report for fiscal year 2003. We selected three developments, to perform physical inspections, with the highest number of violations (ten at Mary E. McCormack, ten at Lenox Street and 7 at Washington/Beech Street). In addition, we performed physical inspections of five contracts (3 construction and 2 other contracts) to determine if work performed to date was satisfactory.

The audit was conducted between June 2003 and October 2003, and covered the period April 1, 2000 through March 31, 2003. When appropriate, the audit was extended to include other periods.

Our survey was conducted in accordance with Generally Accepted Government Auditing Standards.

## **RESULTS OF SURVEY**

We determined that the BHA maintained a Contract Register that identified 195 CFP contracts awarded to include change orders that represented \$63,519,348 in Capital Funds awarded for the audit period April 1, 2000 through March 31, 2003.

### *Contracts Reviewed*

We determined that for the 15 Capital Fund Contract selected for review, the BHA adhered to its own procurement policy, Massachusetts General Law 30B - Uniform Procurement Act, Chapter 149, Sections 44A-J, Competition for Bidders on Construction and HUD requirements under 24 CFR 85.36. For the 15 Contracts selected for review, contract amounts to include change orders and payments were charged to the appropriate Capital Fund general ledger accounts.

In addition, we reviewed one sole source procurement for \$93,928 and one emergency procurement for \$90,110 and found that the BHA adhered to its procurement procedures.

### *Construction Change Orders*

Our review of Construction Contractors change orders determined that the BHA has adequate management controls over its change order process. Project Manager prepares a cover memo to the BHA's Administrator that recommends approval or disapproval regarding a change order. The cover letter provides a brief synopsis of the change order. The change order has a signature page that is signed by the Project Manager and approved by the Senior Project Manager. In addition, the Project Architect provides a detail written analysis of the change order to include how the modification affects the scope of the contract and cost estimate. The BHA's Project Manager completes a Change Order Checklist to ensure that all supporting documentation has been submitted by the Project Architect. Our review disclosed that change orders are signed and dated by the Contractor, counter signed by the Architect/Engineer, BHA's Contracting Officer, and the Administrator.

### *Construction Payments*

Our review of Construction Contractors payments disclosed that the contractor submits an Application and Certificate for Payment along with the supporting documentation to support the payments. Our review disclosed that the contractor and architect signed the Application and Certificate for Payment. The Senior Project Manager states that the Project Architect has reviewed this periodical estimate and finds the periodical correct, and in accordance with the contract. In addition, the Civil Rights Department staff has reviewed the periodical as to compliance and has found it to be acceptable.

### *LOCCS Reconciliation*

We reconciled BHA's General Ledger accounts for the three Capital Fund Program grants to LOCCS as of March 31, 2003. While one input error caused BHA to over report \$567 in expenditures to LOCCS, the total cumulative expenditures reported to HUD for grant MA06P002501-02 was \$1,655,687. Therefore, we determined this error immaterial.

### *Disbursements Reviewed*

Our review of 12 accounts payable disbursements disclosed that the BHA established controls over its disbursement process. Disbursements were reviewed and signed-off by BHA Finance and Accounts Department staff accountants and management before payments were approved. Only authorized personnel signed checks that were disbursed from BHA's Capital Funds.

Our review disclosed that for the 12 disbursements selected, the disbursements were correctly calculated and charged to the appropriate Capital Fund general ledger accounts.

### *Payroll Allocation and Expense*

We determined that the BHA methodology for allocating and charging payroll expenses to the CFP appears reasonable. The BHA allocates payroll expense to the CFP based upon: (1) Budget Department estimates of how much time an employee spends on CFP related activities (after consulting with Department heads) and (2) on weekly time sheets prepared by employees.

### *Work Order Procedures*

We determined that the BHA has established work order procedures, specifically related to health and safety violations. Our review of work orders disclosed that in 25 out of 27 work orders reviewed, the work orders were complete and accurate and the work was performed in a satisfactory manner. For the two work orders with exceptions, we determined that the smoke detectors were inoperable because the batteries from the smoke detectors were removed. Maintenance staff installed new batteries during our on-site inspections and the smoke detectors were made operational.

### *Voluntary Compliance Agreement (VCA)*

We determined that the BHA is adhering to the requirements of the VCA. An agreement between Massachusetts Fair Housing and Equal Opportunity (FHEO) and the BHA was executed on April 1, 2002. The VCA was created because the need for accessible units for persons with impairments were not adequately met. The purpose of this agreement is to provide a framework for the BHA to achieve compliance and to provide for HUD monitoring of the program. This agreement commits the BHA to modify units over the next 3 1/2 years (April 1, 2002 to December 31, 2005) until 5 percent of the units are accessible for individuals with mobility impairments.

BHA's commitment to make 5 percent of its entire stock accessible (13,604 units X 5% = 680 units) will greatly enhance the accessibility of public housing in Boston for persons with disabilities. A summary of the units required follows:

<i>Total Number of Accessible Units Required</i>	<i>Units</i>
<b>5% Total Units Authority Wide</b>	680
<b>Existing Handicapped Units</b>	<u>(313)</u>
<b>Additional Units Required per VCA</b>	367

<i>Additional Units</i>	<i>Units</i>
<b>Pipeline</b>	44
<b>Planned Elderly Units</b>	100
<b>Planned Family Units</b>	<u>223</u>
<b>Total Required</b>	367

Our review disclosed that under the terms of the VCA, a unit is considered complete when construction activity for alteration of that unit is underway. As of October 3, 2003, 98 of the required 367 units were completed (per the VCA definition) and 24 of these units are ready for occupancy. We reviewed BHA's Schematic Design Reports (i.e. Federal Family Accessible and Common Area Construction Schedule; and State and Federal Elderly/Disabled Accessible Unit and Common Area Construction Schedule) and determined that the BHA is currently on schedule to meet the December 31, 2005 completion deadline.

### CONCLUSION

Based on the survey results, we determined that a detailed audit was not warranted. Therefore, we will not expand the survey into the audit phase. We would like to thank the BHA for their cooperation during the survey by furnishing us temporary office space and making personnel accessible to facilitate our review.

Should you or your staff have any questions, please contact Mike Motulski, Assistant Regional Inspector for Audit or myself at (617) 994-8380.

CC: BHA (Ms. Sandra Henriquez, Administrator)