Issue Date	September 20, 2010
Audit Report Number	2010-PH-1013

TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub, 3BPH

//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Housing Authority of Baltimore City, MD, Generally Administered Its Recovery Act Capital Fund Grants in Accordance With Applicable Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of Baltimore City's (Authority) administration of its Public Housing Capital Fund grants that it received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We selected the Authority for audit because it received a $32.7 million formula grant, which was the largest formula grant awarded in the State of Maryland. Our objective was to determine whether the Authority administered capital funds provided under the Recovery Act according to the requirements of the Recovery Act and applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

The Authority generally administered its grant funds in accordance with the requirements of the Recovery Act and HUD rules and regulations. It obligated grant funds within the established deadline, complied with applicable procurement requirements, generally maintained documentation to support expenditures of grant funds, and generally calculated and reported job count information in accordance with Recovery Act guidance. However, it did not always record transactions in its general ledger correctly.

What We Recommend

We recommend that HUD require the Authority to strengthen its controls for maintaining documentation to support cell phone expenditures and recording transactions in its general ledger, and track the performance of its energy conservation program, report performance annually, and identify funds it will use to repay the funds it borrowed to implement energy conservation measures if the projected savings from implementing the measures are not realized.

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 a discussion draft audit report to the Authority on August 27, 2010, and discussed it with the Authority at an exit conference on September 9, 2010. The Authority provided written comments to the draft audit report on September 14, 2010. The Authority agreed with the conclusions and recommendations in the report. The complete text of the Authority's response can be found in appendix B of this report.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVE

The Housing Authority of Baltimore City (Authority) was organized in 1937 under the laws of the State of Maryland to provide federally funded public housing programs and related services for Baltimore's low-income residents. The Authority owns 28 family developments, 17 mixed population buildings, 2 senior buildings, and a number of scattered-site housing units throughout the city. A five-member board of commissioners, appointed by the mayor, governs the Authority. The board appoints an executive director to administer the affairs of the Authority. The current executive director is Paul T. Graziano. He is also the city's housing commissioner.

In March 2005, the Authority entered into a Moving to Work agreement with the U.S. Department of Housing and Urban Development (HUD) for a 7-year term commencing on July 1, 2005. Moving to Work is a national demonstration program established by Congress that allows public housing agencies to develop and implement innovative and flexible solutions to local housing needs. The Authority is 1 of 32 agencies nationwide to be given broad latitude to establish locally determined policies and procedures outside the HUD regulatory framework. In December 2008, HUD and the Authority agreed to extend the Authority's Moving to Work agreement to the end of the Authority's fiscal year 2018.[1]

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). This legislation included a $4 billion appropriation of capital funds to carry out capital and management activities for public housing agencies as authorized under section 9 of the United States Housing Act of 1937. The Recovery Act requires that $3 billion of these funds be distributed as formula grants and the remaining $1 billion be distributed through a competitive process. HUD awarded the Authority a total of $66 million[2] in Recovery Act capital funds. Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act. The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing capital fund program grants.

Our objective was to determine whether the Authority administered capital funds provided under the Recovery Act according to the requirements of the Recovery Act and applicable HUD rules and regulations.

[1] June 30, 2018, is the end of the Authority's fiscal year 2018.

[2] $66 million = $32.7 million in formula grant capital funds awarded in March 2009 and $33.3 million in 11 competitive capital fund grants awarded in September 2009.

RESULTS OF AUDIT

Finding 1: The Authority Generally Administered Grant Funds in Accordance With Applicable Requirements

Overall, the Authority administered its grant funds in accordance with the requirements of the Recovery Act and HUD rules and regulations. It obligated grant funds within the established deadline, complied with applicable procurement requirements, generally maintained documentation to support expenditures of grant funds, and generally calculated and reported job count information in accordance with Recovery Act guidance. However, it did not always record transactions in its general ledger correctly, and its estimated savings for proposed energy conservation improvements at its public housing developments may be overstated.

The Authority Met the Required Obligation Deadline for Its Formula Grant

Under the Recovery Act and HUD Office of Public and Indian Housing (PIH) Notice PIH 2009-12, the Authority was required to obligate 100 percent of its formula grant by March 18, 2010. The Authority met this requirement. The Recovery Act and HUD Notice PIH 2009-12 also required the Authority to expend at least 60 percent of the grant by March 18, 2011. The Authority had expended more than $10.0 million or 30 percent of its grant as of July 12, 2010.

The Authority Generally Procured Goods and Services in Accordance With Applicable HUD Requirements

The Authority generally followed HUD procurement regulations and guidance. For example, it

- Amended its procurement policy as required by HUD Notice PIH 2009-12 to expedite and facilitate the use of grant funds by making State and local laws and regulations inapplicable for Recovery Act grants.

- Awarded contracts competitively in accordance with 24 CFR (Code of Federal Regulations) 85.36 and HUD Handbook 7460.8, REV-2. The Authority advertised and competitively awarded contracts and had sufficient documentation to support the procurements.
- Complied with HUD guidance for implementing the "buy American" requirement of the Recovery Act in HUD Notice PIH 2009-31.

The Authority Generally Maintained Documentation to Support Formula Grant Expenditures and Recorded Transactions in Its General Ledger Correctly

The Authority's expenditures of formula grant funds were generally supported by adequate source documentation, and transactions were generally recorded in the general ledger correctly. We reviewed documentation and transactions supporting $316,923 in formula grant expenditures. The costs were eligible under the capital fund program. The Authority maintained documentation such as invoices and approved requests for periodic partial payments to support the disbursements. However, it did not maintain detailed phone call information to support a cell phone reimbursement, contrary to its cell phone policy, and it erroneously charged $19,263 for asbestos abatement to a Recovery Act project. We brought these issues to the Authority's attention, and it obtained the detailed phone call information and created an adjusting entry to transfer the costs to the correct non-Recovery Act project account.

The Authority Generally Calculated and Reported Correct Job Count Information

Initially, the Authority did not calculate job count information in accordance with Office of Management and Budget (OMB) job reporting guidance, but it revised its procedures for calculating job count information to comply with OMB guidance in February 2010. As a result, the Authority correctly calculated and reported its job count information beginning with the period ending December 31, 2009. Since the Authority revised its procedures and correctly calculated job count information, it avoided overstating its job count information by 268 jobs.

The Authority's Estimated Savings From Competitive Grant-Funded Energy Conservation Measures May Be Overstated

The Authority received $33.3 million in competitive capital fund grants in September 2009. To augment the grants, the Authority leveraged $51 million from an outside source to make energy conservation improvements at its public housing developments. The leveraging of funds was a critical element in the process of awarding competitive Recovery Act grants because it was used for tie-breaking purposes; essentially, the higher the percentage of leveraged funds, the greater the chance for a grant to be awarded. The Authority leveraged funds as required. It intends to pay back the leveraged funds over a 20-year period from savings it expects to realize from making the energy conservation improvements.

The Authority's estimated savings projection of more than $51 million over a 20-year period may not be realized. Although the Authority's energy conservation measures will result in energy savings and utility cost reductions, there are many factors that will affect the amount of the savings. Some of the factors can be controlled by the Authority, such as proper maintenance of the new equipment and reduction of waste by monitoring consumption, preventive maintenance, and timely repairs of equipment. Other factors are beyond the Authority's control, such as lack of tenant cooperation and compliance with conservation measures. We reviewed the Authority's calculations for its projected savings and have concerns about extraordinary maintenance and replacement issues. For example, as equipment ages, some of it, such as boilers, requires periodic cleaning of fire tubes and burners, as well as maintaining the lines, valves, traps, and other components. Other costs, such as replacing specialty light bulbs, should have been included in the Authority's analysis because it would reduce the projected savings. The Authority informed us that to address these issues, it is developing a maintenance and replacement plan and a utility consumption and management system to address the controllable factors. It also informed us that it plans to implement resident training programs and to bill residents for excessive consumption charges.

The Authority is operating under a Moving to Work agreement, which expires in June 2018. The Authority's agreement, dated December 24, 2008, permits it to pledge its reserves or other funds for use during the term of the Moving to Work agreement to guarantee the payment of debt service in the event that projected energy savings are not adequate to cover the debt service costs for an energy conservation project undertaken during the term of the agreement. However, the Authority is just beginning its energy conservation projects, and the amount of Moving to Work reserves or other funds that may be needed to cover the debt service in the event that the projected savings are not realized cannot be determined. The Authority indicated that it mitigated the potential risk in its savings estimate by using a savings level that was 24 percent less than its energy service company recommended and that it will negotiate with utility companies for a more favorable energy rate. However, we have concerns that the estimate may be overstated. To ensure that the potential overstatement of the savings estimate does not become a problem the Authority should monitor the performance of its energy conservation program against its projection and ensure that appropriate funds are available to cover the debt service if the energy savings are not realized as projected.

Conclusion

The Authority generally administered its grant funds in accordance with the requirements of the Recovery Act and HUD rules and regulations. However, the Authority needs to strengthen its controls for maintaining documentation to support cell phone expenditures and recording transactions in its general ledger. Because of our concern regarding the potential risk associated with the energy conservation measures, the Authority needs to maintain documentation to track the performance of its energy conservation program, report performance annually, and identify funds it will use to repay the funds it borrowed to implement energy conservation measures if the projected savings from implementing the measures are not realized.

Recommendations

We recommend that the Director of the Baltimore Office of Public Housing require the Authority to

1A. Adjust its books to properly record $19,263 in costs to the correct non-Recovery Act project account.[3]

1B. Strengthen its controls for maintaining documentation to support cell phone expenditures and recording transactions in its general ledger.

1C. Maintain documentation to track the performance of its energy conservation program, report energy conservation performance annually in accordance with its Moving to Work agreement, and identify the funds to be used to repay the leveraged funds if the projected savings are not realized.

[3] The Authority took corrective action during the audit regarding this recommendation.

SCOPE AND METHODOLOGY

We conducted our onsite work from October 2009 through May 2010 at the Authority's main office located at 417 East Fayette Street, Baltimore, MD, and at our offices located in Baltimore, MD, and Richmond, VA. The audit covered the period February 2009 through January 2010 but was expanded when necessary to include other periods.

To achieve our audit objective, we

- Obtained relevant background information;
- Reviewed the Recovery Act;
- Reviewed Office of Management and Budget guidance for implementing the Recovery Act;
- Reviewed applicable HUD rules, regulations, and guidance;
- Reviewed the Authority's procurement activities;
- Reviewed the Authority's competitive grant applications and support for projected energy cost savings that it expected to realize from making energy conservation measure upgrades in its public housing units;
- Reviewed documentation supporting six expenditures totaling $316,923;
- Interviewed relevant Authority staff;
- Interviewed officials from HUD's Office of Public Housing Investments, and Baltimore Office of Public Housing; and
- Visited several properties being renovated or scheduled for renovation using Recovery Act funds.

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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included tests of internal controls that we considered necessary under the circumstances.

INTERNAL CONTROLS

Internal control is a process adapted 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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objective.

- Reliability of financial data – Policies and procedures that management implemented to reasonably ensure that payments to contractors/vendors were made in accordance with applicable requirements

- Compliance with laws and regulations – Policies and procedures that management implemented to reasonably ensure that resource use was consistent with laws and regulations.

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 Deficiency

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	$19,263 (1)

(1) The Authority took corrective action during the audit and achieved this benefit.

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, the Authority took action to correctly record an expenditure of $19,263 on its books and avoid charging ineligible costs to its Recovery Act grant.

Appendix B

AUDITEE COMMENTS

BALTIMORE
HOUSING

STEPHANIE
RAWLINGS-BLAKE
Mayor

PAUL T. GRAZIANO
Executive Director, HABC
Commissioner, HCD

September 14, 2010

U.S. Department of Housing and Urban Development
Office of Inspector General
Wanamaker Building, Suite 10205
100 Penn Square East
Philadelphia, PA 19107

Attention: Mr. John J. Buck, Regional Inspector General for Audit

SUBJECT: HUD IG Audit Report, American Recovery and Reinvestment Act (ARRA) Public Housing Capital Fund Program

Dear Mr. Buck:

On September 10, 2010, the Authority received the draft Audit Report, of the ARRA Public Housing Capital Fund Program. As identified in the audit report by the HUD IG, the Authority generally administered its grant funds in accordance with the requirements of the Recovery Act and HUD rules and regulations. The Authority takes pride in its accomplishments under this Program. The first two recommendations cited on page 8 of the report have been addressed. The third recommendation is beyond the scope of the ARRA compliance review but in any event, the Authority has taken a number of steps to mitigate the potential risk of underachieved energy savings.

The Authority has the following comments to the recommendations identified on page 8.

1A. As noted, this recommendation has been resolved. Our financial record had been corrected before the audit was finalized.

1B. The Authority acknowledges that the detail for a specific cell phone reimbursement (valued at $40) was not provided at the time cell phone costs were reviewed during the audit. However, prior to completion of the audit, the specific cell phone detail was obtained to support the reimbursement. The Authority's Inspector General has been

417 E. Fayette Street • Baltimore, MD 21202 • MD Relay 711 • TTY 410-547-9247 • baltimorehousing.org

directed to review the Authority's existing cell phone policy to determine if changes are necessary and confirm that controls are in place to ensure compliance.
The Authority acknowledges that the $19,263 was coded to an ARRA account in error and it has been corrected. However, we would like to highlight that we have a long standing practice to conduct a reconciliation of all contract activity during the close out process of each contract. Since the audit was conducted prior to the close out, the
U.S. Department of Housing and Urban Development

Authority's practice of reconciling the costs for each contract had not yet been performed. Given the Authority's existing controls, the contract reconciliation would have identified this error and a correction would have been completed as part of the close out process. We have provided the HUD IG with a copy of a contract checklist that documents the requirement for a reconciliation memo. The Authority intends to codify the reconciliation process in writing to strengthen the requirements of this reconciliation process.

1C. The Authority is required to submit its MTW Annual Report to HUD. The Annual report, includes 18 measurements on the Energy Performance Contracting Program. As noted in the audit report, the Authority has mitigated the potential risk in its utility savings estimate by using a savings level that was 24 percent less than its energy service company recommended. In addition, as you have acknowledged in page 7, the Authority has developed a maintenance and replacement plan and a utility consumption and management system to address the controllable factors. We have also implemented a resident training program and will bill residents for excessive consumption charges. The Authority believes that the estimated utility savings are achievable. If for some reason the projected savings are not realized, the Authority understands that it will have to use the MTW block grant funds to repay the debt service.

We appreciate the efforts of you and your staff in undertaking this review and are pleased that our efforts meet the expectations under the ARRA Program. If you have any questions, please contact Christa Phillips, Housing Authority of Baltimore City Inspector General, at 410-545-0145.

Sincerely,

Paul Graziano
Executive Director

PG/AC

Cc: David Kasperowicz
Jeff Green
William Tamburrino
Rachel Raffel