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**MEMORANDUM NO:
2010-CH-1805**

April 14, 2010

MEMORANDUM FOR: Lucia M. Clausen, Acting Director of Public Housing Hub, 5FPH

//signed//

FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Benton Harbor Housing Commission of Benton Harbor, MI, Had Sufficient Capacity To Adequately Administer Its Recovery Act Funding

INTRODUCTION

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we conducted a capacity review of the Benton Harbor Housing Commission's (Commission) operations. We selected the Commission based upon the results of our audit of the Commission's Public Housing Capital Fund (Capital Fund) program (see Office of Inspector General audit report #2006-CH-1010, issued May 18, 2006). Our objective was to determine whether there was evidence that the Commission lacked the capacity to adequately administer its Recovery Act funding.

BACKGROUND

Under the Recovery Act, the U.S. Department of Housing and Urban Development (HUD) allocated more than \$600,000 in Capital Fund program funding to the Commission. The funding will be used to perform capital improvements to its public housing developments.

Organized under the laws of the State of Michigan, the Commission is governed by a board of commissioners (board), consisting of four-members. Its mission is to provide housing that is decent, safe, sanitary, in good repair, and affordable for the residents of Benton Harbor, MI. The Commission's executive director is responsible for managing its day-to-day operations.

From 2004 through 2007, under the direction of the Commission's former executive director, the Commission was designated as a troubled agency based on its Public Housing Assessment System scores of less than 60. As a result, it has been under memorandums of agreement (agreement) with HUD from 2004 to the present. In 2007, HUD assigned the Commission to the

Recovery and Prevention Corps (Corps).¹ The Corps provides guidance and monitors the Commission’s operations, including its administration of its Recovery Act funding.

The Commission was awarded more than \$1.5 million from HUD’s Office of Public and Indian Housing’s Capital Fund formula grant program for fiscal years 2007 through 2009. The following chart shows the funding per fiscal year.

Program year	Capital Fund program grant
2007	\$570,696
2008	496,333
2009	513,460
Total	<u>\$1,580,489</u>

SCOPE AND METHODOLOGY

Our review of the Commission was limited to gaining an understanding of its internal controls and plans for the administration of the program funds received under the Recovery Act. To accomplish our objective, we reviewed laws, regulations, and HUD guidance applicable to the Recovery Act and the program. Additionally, we reviewed the Commission’s Recovery Act documentation and funding agreement, annual contributions contract (contract), and agreements and corrective action plans with HUD, along with support documentation of the corrective actions taken.

We also reviewed the Commission’s 2008 annual and 5-year plan, policies and procedures, procurement records, board meeting minutes and resolutions, organizational charts, job descriptions, and independent public accountants’ reports for 2007 and 2008. Further, we reviewed the Corps’ onsite and remote monitoring reports and other pertinent documentation.

To test the Commission’s compliance with HUD’s requirements and the requirements for the Recovery Act, we selected a nonstatistical representative sample of four contracts executed during 2007 and 2008 under the Commission’s program. The four contracts totaled more than \$615,750 and represented 58 percent of the more than \$1 million that was awarded to the Commission (see chart above). Additionally, we selected two contracts that were awarded during 2009 using program funds provided under the Recovery Act. The two contracts totaled \$157,484 and represented 25 percent of the Commission’s Recovery Act funding. As of March 2, 2010, the Commission had obligated all of its funds.

We also interviewed HUD’s and the Commission’s staff. For this review, our work was limited to the stated objective and should not be considered a detailed analysis or assessment of the Commission’s internal controls and operations.

¹ The Corps supports HUD’s Office of Public Housing field offices to prevent at-risk public housing agencies from becoming troubled and to facilitate the recovery of troubled agencies. The Corps provides specific technical assistance, training, and consulting services to hub/program centers and program areas within HUD’s Office of Public and Indian Housing.

RESULTS OF REVIEW

Under the direction of the Commission's current executive director, the Commission had sufficient capacity to adequately administer its Recovery Act funding. In 2007, as a part of its agreements with HUD, the Commission went under the supervision of the Corps. The Corps monitors and provides guidance on and oversight of the Commission's operations, including its Recovery Act funding. The Commission must submit its line of credit drawdown requests for its Recovery Act funding to the Corps for review before the release of the funds. Additionally, the Corps and/or a contractor performs monthly onsite and/or remote monitoring reviews of the Commission's activities. The Commission is also required to submit progress and status reports to the Corps on a monthly basis.

Under the guidance of the Corps, the Commission established written policies and procedures, which incorporated requirements under the Recovery Act. The Commission also established an internal control policy that described the general guidelines for establishing internal control procedures governing the Recovery Act funding. The Corps provided training to the Commission's current administration and board on HUD's requirements. In addition, the Commission received training on the requirements under the Recovery Act.

The Commission met the requirements for timely obligation and expenditure of its program grants for the years 2007 and 2008. Three of the four contracts selected for review were awarded during the Commission's 2007 grant year under the direction of the Commission's former executive director. The three procurement files were missing required supporting documentation such as independent cost estimates, evaluation plans, notes of prebid proposal conferences, evidence of bid openings, inspection and field reports and completion certificates, etc. For the remaining contract, which was awarded during 2008 under the direction of the Commission's current executive director (the interim director at the time), the procurement file contained all of the required documentation.

On March 18, 2009, HUD signed an amendment to the Commission's contract to provide \$628,259 in Recovery Act funding. For its planned use of the funds, the Commission intended to perform capital improvements to its public housing developments such as roof replacements, furnace repairs and replacements, remetering for individual electrical meters; water and heater boiler replacements, plumbing repairs, and security system upgrades. The Commission also planned to replace the floors and repair the plumbing at its scattered-site housing. These improvements/replacements were identified in the Commission's 2007 physical needs assessment and viability review and also identified in its HUD-approved 5-year plan.

As of March 2, 2010, the Commission had obligated all of its Recovery Act funding and expended \$157,484 (25 percent) of the funds, which represented two of the seven awarded contracts. We reviewed the procurement for the two contracts and documentation for the related expenditures and determined that they were in compliance with HUD's and the Recovery Act's requirements and the Commission's own policies and procedures.

Based upon our review, under the direction of the current executive director, the Commission had sufficient capacity to effectively and efficiently administer its Recovery Act funding.

RECOMMENDATION

Based on the results of our capacity review, this memorandum contains no recommendation.

AUDITEE COMMENTS

The Authority's executive director declined our offer to provide written comments on our draft memorandum report.