



Issue Date September 24, 2010
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Audit Report Number 2010-DE-1007
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TO: Carol Ann Roman, Director, Denver Office of Public Housing, 8APH  
//Signed//  
FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The Housing Authority of the County of Salt Lake, UT, Properly Expended Its Recovery Act Capital Grant Funds, But Did Not Properly Obligate All Its Funds

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed the Housing Authority of the County of Salt Lake's (Authority) Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant (grant) based on a risk assessment we completed and the results of a monitoring review performed by the Denver Office of Public Housing.

The objective was to determine whether the Authority properly obligated and expended its formula grant funds.

### **What We Found**

The Authority did not properly obligate more than \$500,000 of its grant funds. The Authority obligated the funds without executing contracts for the planned improvements. However, it generally expended more than \$600,000 of its formula grant funds properly.

## **What We Recommend**

We recommend that the Director of the Denver Office of Public Housing recapture the \$560,726 in grant funds that were not properly obligated by the deadline.

The Denver Office of Public Housing officials concurred with the recommendation and provided a management decision on September 10, 2010.

## **Auditee's Response**

We provided the draft report to Authority officials on September 8, 2010 and received their written response on September 10, 2010. The Authority officials indicated they concur with the finding and recommendation and that they are working with HUD to resolve the recommendation.

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**

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The Housing Authority of the County of Salt Lake, UT (Authority), was established in 1970 for the purpose of providing affordable housing to individuals living in Salt Lake County. The Authority is responsible for 3,205 housing units under 11 housing programs. The Authority owns 626 public housing units, of which 619 are available for lease to low-income and elderly individuals. The Authority subsidizes 2,422 Section 8 units and operates 159 units not subject to U. S. Department of Housing and Urban Development (HUD) requirements.

The mission of the Authority is to provide and develop quality affordable housing opportunities for individuals and families while promoting self-sufficiency, empowerment and neighborhood revitalization.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), signed into law on February 17, 2009, provided \$4 billion for the Public Housing Capital Fund. The funding was for capital and management activities for public housing agencies as authorized under Section 9 of the U. S. Housing Act of 1937 as amended. The Recovery Act required that \$3 billion of these funds be distributed as grants by the same formula used for Public Housing Capital Fund amounts made available in fiscal year 2008. The remaining \$1 billion was for competitively awarded grants. The Authority received a formula grant of \$1,179,395 on March 18, 2009.

The objective of our review was to determine whether the Authority properly obligated and expended its formula grant funds.

## RESULTS OF AUDIT

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### Finding: Grant Funds Were Not Properly Obligated by the Deadline

The Authority obligated funds without executing contracts by the March 17, 2010 deadline. This condition occurred because Authority officials misinterpreted the grant requirements. As a result, the Authority will have more than \$500,000 of its grant funds recaptured by HUD.

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#### **The Authority Obligated Funds Without Contracts**

The Authority obligated funds without executing contracts for the planned improvements. The HUD Office of Public and Indian Housing's Notice PIH 2009-12 (HA) required that the entire amount of the formula grant be obligated by March 17, 2010. The definition of obligation is contract execution for contract labor, materials, or services or start and continuation of physical work by force account labor. Force account labor means the workers are employed directly by the Authority.

The Authority was not using force account labor, so it was required to have contracts executed for all grant funds by the deadline. Authority accounting records showed that as of April 2010, the Authority had executed contracts and made other purchases resulting in the expenditure of \$624,765 of the grant funds. The Authority did not have the required executed contracts for the remaining \$554,630. However, it obligated the full amount of the grant in the HUD reporting system.

#### **Authority Officials Misinterpreted the Grant Requirements**

Authority officials misinterpreted the grant requirements. They considered the Authority to be the general contractor under the force account labor requirements. Authority officials thought that since they had started work on all of the projects to be funded by the grant funds, the remaining portions were continuations of the projects and the full grant amount was obligated. However, the completed work was performed through contracts, not force account labor.

### **HUD Is Required To Recapture the Funds**

HUD is required to recapture the funds that were not properly obligated. The notice required that at the one-year date, all unobligated funds would be unilaterally recaptured. An extension of the deadline is not permitted. Therefore, HUD has to recapture the \$554,630 not obligated by the deadline.

### **HUD's Immediate Action**

We discussed this finding with HUD Denver Office of Public Housing officials during the review. They immediately started working with Authority officials on this issue and determined that two expenditures without contracts also occurred after the deadline. HUD officials determined that \$560,726 is the actual amount of funds to be recaptured. We changed the recommendation accordingly.

### **Recommendations**

We recommend that the Director of the Denver Office of Public Housing

- 1A. Recapture the \$560,726 in grant funds that were not properly obligated by the deadline.

## SCOPE AND METHODOLOGY

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Our review period was March 1, 2009 through April 30, 2010. We performed our onsite review work from May through June 2010, at the Authority office at 3595 South Main Street, Salt Lake City, UT.

To accomplish our review objective, we identified and reviewed applicable sections of the Recovery Act, HUD regulations, HUD PIH notices, and Authority policies related to the Recovery Act Public Housing Capital Fund formula grant.

To determine whether the Authority properly obligated and expended the formula grant funds, we reviewed the files for all 11 of the Authority's grant contracts and associated grant records. We also reviewed obligation records, accounting reports, and available policies and procedures.

As of April 2010, the Authority had executed contracts and made other purchases resulting in the expenditure of \$624,765, or about 52 percent, of the grant funds. We reviewed all the expenditures for the contracted grant work. We used a computer generated accounting report to select a sample of grant expenditures for expenses not associated with the contracts. We selected 11 of these 93 expenditures to get an overview of the types of miscellaneous expenses and determine whether they were allowable expenses. We reviewed source documents for transactions reviewed and did not base our conclusions on computer generated data.

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.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Controls to ensure that the grant funds were obligated and expended as required.

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

Based on our review, we believe that the following item is a significant deficiency:

- Controls over obligating grant funds with properly executed contracts within the required deadline.

**Separate Communication of  
Minor Deficiencies**

Minor internal control and compliance issues were reported to the Authority in a separate memorandum, dated September 24, 2010.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible 1/
1A	\$560,726

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. The Authority did not meet the required deadline for obligating grant funds and is no longer eligible to use the funds. HUD is required to recapture the funds.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

### Comment 1

10 September 2010

Ronald J. Hosking  
Regional Inspector General for Audit  
US Department of Housing and Urban Development  
Office of Inspector General  
Region VIII Office of Audit  
UMG Plaza – 24<sup>th</sup> floor  
1670 Broadway  
Denver, CO 80202-4801

Dear Mr. Hosking:

We have received the draft audit report of the Housing Authority of the County of Salt Lake dated 8 September 2010. We concur in the finding that the Authority did not properly obligate more than \$500,000 of its Public Housing Capital Fund Stimulus (Formula) Recovery Act Funding.

The draft report recommends that the Director of the Denver Office of Public Housing recapture \$554,630 in grant funds that were not properly obligated by the deadline. The amount of \$554,630 is the amount left in ELOCCS that has not been drawn, but in fact we expended two emergency items in April 2010 that did not have contracts in place prior to March 17, totaling \$6,095. My assumption is that \$6,095 should also be returned to the Denver Office of Public housing.

Sincerely,

//Signed //

Kerry William Bate  
Director

cc: HACSL Board of Commissioners  
Management team



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Sandra Kikuchi  
James Yapias

## **OIG Evaluation of Auditee Comments**

**Comment 1** Authority officials concurred with the finding and recommendation and are working with HUD officials to resolve the concern reported in Finding 1.