Issue Date
September 30, 2011
Audit Report Number
2011-CH-1018

TO:

Willie Garrett, Director, Office of Public Housing Hub, 5FPH

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The Pontiac Housing Commission, Pontiac, MI, Did Not Adequately Administer Its American Recovery and Reinvestment Act Capital Fund Grant

HIGHLIGHTS

What We Audited and Why

We audited the Pontiac Housing Commission's Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant. The audit was part of the activities in our fiscal year 2010 annual audit plan. We selected the Commission for review as part of the Office of Inspector's General's commitment to ensure the proper use of Recovery Act funds. Our objective was to determine whether the Commission properly obligated and expended its formula grant and related procurements complied with U.S. Department of Housing and Urban Development (HUD) and Recovery Act requirements.

What We Found

The Commission's Recovery Act obligations and expenses were not properly supported, and its related procurements did not comply with HUD's and its own requirements. Specifically, the Commission did not (1) ensure that its contractors complied with the Davis-Bacon Act, (2) comply with Federal and its contract administration requirements, and (3) properly administer and account for vacant unit turnovers by its force account.

Further, the Commission created a conflict-of-interest relationship when it awarded a carpet installation contract to an employee. This condition occurred because the Commission lacked adequate procedures and controls to ensure that it complied with HUD's and its own procurement and contract administration requirements. As a result, the Commission used more than $148,000 in Recovery Act grant funds contrary to its annual contributions contract with HUD and its own procurement requirements, and HUD lacked assurance that the Commission effectively managed its grant.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to obtain certified weekly payrolls from the 8 contractors identified and determine whether the contractors paid the correct wage rates to their employees. If the contractors failed to pay the correct wages owed to their employees, the Commission should pay wage restitution to these employees. HUD should also require the Commission to (1) pay wage restitution of $4,357 to its two contractors' employees and submit proof that the employees received the wage restitution, (2) develop written procedures for the enforcement of labor standards to ensure compliance with its own requirements regarding the enforcement of labor standards, (3) maintain a system of contract administration to ensure that its contractors perform in accordance with their contracts, (4) obtain missing contract administration documents and retain them in the contract files, (5) pay wage restitution of $66,210 to its force account staff and provide proof that the payments were made, (6) identify the specific units assigned to each maintenance staff member for phase II unit turnover work and to the contractor for phase III unit turnover work and provide support, and (7) reimburse HUD $38,027 from non-Federal funds for transmission to the U.S. Treasury for the inappropriate use of grant funds.

We also recommend that the Director of HUD's Detroit Office of Public Housing (1) prohibit the use of force account labor for any future unit turnover work until the Commission can demonstrate that it has the capacity to perform the work (2) follow established procedures for addressing public housing authorities designated as substandard physical, including but not limited to, amending the Commission's existing memorandum of agreement with HUD to incorporate the recommendations cited in this audit report, and (3) recapture all funds that the Commission obligated for unit turnovers by its force account. This amount includes the work item for cycle painting and carpet removal work by its force account for $24,149, the $15,933 of improper obligations due to the Commission's conflict-of-interest relationship that has not been spent and repairs to its sidewalk, driveway, and brickwork for transmission to the U.S Treasury.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD

Handbook 2000.06, REV-3. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft audit report to the Commission's executive director, its board president, and HUD's staff during the audit. We asked the Commission's executive director to provide comments to our discussion draft report by September 30, 2011.

The Commission's executive director provided written comments, dated September 28, 2011, that generally agreed with our findings and recommendations. We held an exit conference with the Commission on September 27, 2011. The complete text of the auditee's response, except for the 10 pages of documentation that was not necessary for understanding the director's comments along with our evaluation of that response, can be found in appendix B of this audit report. We provided the Director of HUD's Detroit Office of Public Housing with a complete copy of the Commission's written comments plus the 10 pages of documentation.

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BACKGROUND AND OBJECTIVE

The Pontiac Housing Commission, which was established in 1950, administers Federal- and State-funded rental assistance programs for low-income families, the elderly, and disabled persons in the Pontiac, Oakland County, MI, area. The Commission also administers the Section 8 Housing Choice Voucher program and various home ownership and resident service programs, providing assistance to more than 1,100 families under the State of Michigan Public Housing Act of 1933.

As of August 18, 2010, the U.S. Department of Housing and Urban Development (HUD) had contracted with the Commission to administer 452 public housing units in three developments and administer a Section 8 Housing Choice Voucher program for up to 770 units for low- and moderate-income families. The Commission's board of commissioners is appointed by the mayor. The commissioners govern the Commission and delegate direct responsibility for the administration of the Commission's day-to-day operations to its executive director. The books and records of the Commission are located at 132 Franklin Boulevard, Pontiac, MI.

The Commission annually receives capital funds administered by HUD's Office of Public and Indian Housing. Capital funds may be used for development, financing, and modernization of public housing developments and for management improvements. The Quality Housing and Responsibility Act of 1998 converted HUD's Comprehensive Grant and Comprehensive Housing Assistance programs to the Public Housing Capital Fund program.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, which included $4 billion in capital funds to carry out activities of HUD programs, as authorized under Section 9 of the United States Housing Act of 1937. The Act required that $3 billion of these funds be distributed as Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grants and the remainder be distributed through a competitive grant process.

On March 18, 2009, HUD executed an amendment to the Commission's annual contributions contract to provide $663,116 in Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant for the following:

Cost category	Amount
Management improvements	$30,116[1]
Administration	$66,312
Fees and costs	$11,205
Site improvement	$34,117
Dwelling structures	$509,876
Dwelling equipment-Nonexpendable	$8,126
Nondwelling structures	$3,365
Total	**$663,116**

The Recovery Act required public housing authorities to obligate 100 percent of the funds within 1 year of the date on which the funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of such date. The Commission obligated its funds in a timely manner and had expended $539,850 of the funds as of August 31, 2010. Therefore, the Commission also met the 60 percent expenditure time requirements. Any funds that are unexpended by the 3-year date of March 17, 2012, will be recaptured.

Obligation and expenditures	Due date
100 percent obligation	March 17, 2010
60 percent expended	March 17, 2011
100 percent expended	March 17, 2012

Further, the Recovery Act required the Commission to report quarterly regarding the use of Recovery Act funding and the number of jobs created in accordance with guidance issued by the Office of Management and Budget (OMB). Section 1512 of the Recovery Act requires recipients and subrecipients to report on the nature of projects undertaken with Recovery Act funds and the number of jobs created and retained. This information must be submitted to FederalReporting.gov, a system created and managed by OMB and the Recovery Accountability and Transparency Board. Once data have been submitted to FederalReporting.gov and reviewed by the funding or awarding agency, the reports are made available to the public via the Recovery.gov Web site. The Commission complied with this provision and reported quarterly during our audit period.

[1]In May 2010, the Detroit Public Housing Office completed a review of the Commission's obligations and determined that it inappropriately obligated the $30,116 of management improvement costs to its force account to perform security monitoring. HUD required the Commission to repay the inappropriate obligation from non-federal funds.

In 2008, HUD designated the Commission as substandard physical based on poor physical inspection reports on its two housing projects, Woodland Heights and Carriage Circle. As a result, the Commission was put on a zero threshold for all Recovery Act obligations. HUD also executed a memorandum of agreement (agreement) with the Commission dated June 2, 2009 to address its deficiencies. The Commission completed the agreement in June 2010. However, in 2010, the Commission was again designated as substandard physical based on its poor physical inspection reports. In December 2010, the Commission's agreement was renewed and expires on December 31, 2011.

Our objective was to determine whether the Commission administered its grant in accordance with Recovery Act and HUD requirements.

RESULTS OF AUDIT

Finding 1: The Commission Did Not Ensure That Its Contractors Complied With the Davis-Bacon Act

The Commission did not ensure that its contractors complied with the Davis-Bacon Act. It was unable to provide sufficient and complete payroll documentation for 8 contractors, and 2 contractors' employees were not paid the appropriate Federal prevailing wage rates. This condition occurred because the Commission lacked adequate procedures and controls to ensure that it properly monitored its contractors for compliance with the Davis-Bacon Act. As a result, HUD and the Commission lacked assurance that the eight contracts paid their employees the appropriate Federal prevailing wage rates, and two contractors' employees were underpaid by more than $4,300 for construction work funded under the Recovery Act.

The Commission Did Not Ensure That Its Contractors Complied With the Davis-Bacon Act

The Commission used its Recovery Act capital funds to award 14 construction contracts totaling more than $458,000 for the following services:

No.	Recovery Act-funded contract	Amount
1	Upgrade elevator mechanicals	$151,584
2	Replace and rekey unit door locks	9,023
3	Replace hot water pumps & shutoff valves	55,280
4	Roof repair	2,500
5	Repair sidewalks, driveway, and brickwork	21,351
6	Tile 1st and 5th floors at Carriage Circle	23,123
7	Replace rooftop heaters at highrises, C wing	10,000
8	Access control system	19,331
9	Security system upgrades	32,249
10	Elevator refurbishment interior	51,831
11	Carpet and tile installation for unit turnovers	21,404
12	Unit turnover work - phase I	23,013
13	Unit turnover work - phase III	28,861
14	Install fencing at Carriage Circle	9,200
	Total	$458,750

However, the Commission did not ensure that its contractors complied with the Davis-Bacon Act. It was unable to provide sufficient and complete payroll documentation for 11 of the 14 Recovery Act-funded contracts, which represented 8 of the 11 contractors, to ensure that its contractors paid employees the appropriate prevailing wage rates in accordance with the Act. HUD Handbook 1344.1, REV-1, requires public housing agencies to monitor enforcement of labor

standards for the payment of prevailing wage rates in all construction contracts over $2,000 involving Federal funds. The amounts awarded for the contracts ranged from $2,500 to more than $151,000.

For the remaining three contracts, two contractors did not pay their employees the appropriate Federal labor standards prevailing wage rates as follows:

- For its contract to replace hot water pumps and shutoff valves at two of its highrise buildings, the Commission incorrectly used the U.S. Department of Labor's residential wage decision instead of the heavy construction wage decision for Oakland County. According to the U.S. Department of Labor, the residential construction wage decision applies to single-family housing and multifamily housing up to four stories. However, both of the Commission's highrise buildings had more than four stories. Therefore, the appropriate wage decision classification should have been the heavy construction classification, and the correct wage rate was $54.81 per hour, including fringe benefits, a difference of $13.48 per hour from the residential construction wage rates.

  We determined from the contractor's weekly payroll records provided for the weeks ending October 2, October 9, October 16, and October 30, 2009, that two employees worked a total of 112 hours each for a combined total of 224 hours. Therefore, both employees were owed restitution of $1,510 (112 hours * $13.48 per hour) for a total of $3,020.

- For its fencing contract, the Commission obtained and received certified weekly payroll documentation from its contractor during our review. In reviewing the contractor's payroll documentation, we determined that it paid three employees for 20 hours of work at the rates of $11 per hour, $13 per hour, and $15.50 per hour, respectively, not considering overtime pay. The Commission or the contractor was unable to provide documentation to identify the appropriate classification for the fence installers to determine if the contractors' employees were paid the appropriate Federal prevailing wage rates. Therefore, based on documentation provided by HUD's Detroit Office of Labor Relations, we determined that the appropriate classification for a fence installer was "construction laborer." According to the U.S. Department of Labor the appropriate wage rate for a construction laborer was $20.09 per hour plus the fringe benefits rate per hour of $13.17 for a total of $33.26 per hour.

  Using the contractor's payroll documentation, we determined that its three employees worked 20 hours each over 2 days, which included 4 overtime hours per worker, for a total of 60 hours. The employees should have been paid $731.72 for the 20 hours each employee worked. Therefore, total wage restitution was calculated as $1,337.

Conclusion

The Commission did not adequately monitor contractors for the enforcement of labor standards. This condition occurred because the Commission lacked adequate procedures and controls to ensure that it properly monitored its contractors for compliance with the Davis-Bacon Act. The Commission's financial reporting manager was not aware of his responsibilities in regard to the enforcement of labor standards. The Commission required each contractor to sign a two-page document, entitled "HUD Economic Stimulus Funding Contracting Requirements," in addition to its executed contracts. The document clearly stated that the contractors were responsible for the payment of prevailing wage rates to all laborers and mechanics on Federal Government construction contracts over $2,000. As an aid to the contractor, the Commission specified the applicable wage determination for the contract and the applicable trades and wage rates. However, as mentioned previously, for one contractor, the Commission provided the inappropriate wage determination. As a result, HUD and the Commission lacked assurance that the eight contractors paid their employees the appropriate Federal prevailing wage rates, and two contractors' employees were underpaid by more than $4,300 for construction work funded under the Recovery Act.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

1A. Obtain certified weekly payrolls from the 8 contractors identified in this finding and determine whether the contractors paid the correct wage rates to their employees. If the contractors failed to pay the correct wages owed to their employees, the Commission should pay the wage restitution to those employees. The Commission should provide documentation indicating payment of the employee wage restitution to HUD's Detroit Office of Labor Relations for review and approval.

1B. Pay $4,357 in wage restitution to the two contractors identified in this finding and submit proof that the employees received the restitution to HUD's Detroit Office of Labor Relations for review.

1C. Develop written procedures for the enforcement of labor standards to ensure compliance with HUD's labor standards enforcement requirements and its own procurement requirements.

1D. Provide training on HUD's requirements regarding labor standards enforcement to all of its employees that are involved in the process.

Finding 2: The Commission Did Not Comply With HUD's and Its Own Contract Administration Requirements

The Commission failed to comply with Federal requirements and its own contract administration requirements. Specifically, it did not maintain a system of contract administration, and its contract files did not contain (1) necessary justifications and approvals for change orders or the payment of preagreement costs and (2) documentation to support that it performed progress inspections of construction projects. Further, the Commission did not ensure that contractors completed contracted work in a timely manner. The problems occurred because the Commission lacked adequate procedures and controls for administering contracts and designating responsibilities among its staff to ensure that contractors performed in accordance with their contracts. As a result, HUD and the Commission lacked assurance that the Commission properly expended its Recovery Act capital grant funds.

The Commission Did Not Comply With HUD's and Its Own Contract Administration Requirements

The Commission did not maintain a system of contract administration as required by HUD and its own policies. In reviewing all 14 of the Commission's Recovery Act-funded contracts and related procurement files, we determined that the Commission did not

- Issue notices to proceed before the work began for 13 of its 14 contracts;
- Maintain contractors' requests for final inspections and documentation of its final inspections before the final payments were made to the contractors;
- Receive required certified weekly payrolls from the awarded contractors for 11 of its contracts (see finding 1);
- Ensure that an adequate notarized certificate and release was received from each construction contractor and subcontractor to ensure that the work was in full compliance with the construction contract documentation and that all materials, supplies, and equipment had been paid in full by the contractors for all 14 of its contracts; and
- Ensure that it obtained warranties from manufacturers and contractors on equipment and systems, warranty inspections were performed during the warranty period, and any defects relating to manufacturer or contractor warranties were promptly reported to the contractors, in writing, before the warranty period expired.

The Commission Did Not Ensure That Its Contract Files Contained Adequate Documentation

The Commission's contract files did not contain necessary justifications for change orders, evidence that the Commission performed progress inspections in accordance with HUD's requirements, or required approval from HUD for using Recovery Act capital funds for preagreement costs. Specifically, the Commission's contract for unit turnovers, which was originally for cycle painting of the Commission's 30 vacant and occupied units, did not identify the specific 30 units for the scope of work. Also, the Commission's contract files did not contain written correspondence to the contractor that identified the specific 30 units. On February 22, 2010, the Commission amended the contract to include unit turnover renovations for three housing units plus tub liner repairs and the removal of debris in another five housing units. However, the specific units for tub liner repairs and debris removal were not identified in the Commission's contract files. The costs of these additions totaled more than $7,900, thus increasing the total for its unit turnovers contract from $20,950 to $28,861 (see finding 1). The Commission did not perform an independent cost estimate to determine the reasonableness of the change order amount.

The Commission was unable to provide us a list of the phase III units that received painting and tub liner repairs until we inquired about the specific units where the contract work was performed. We performed an onsite walk-through inspection in September 2010 and determined that the Commission substituted one housing unit for another in the contract change order. Also, the Commission's contract files did not document any progress inspections to justify the contractor's first invoice, dated March 16, 2010, for $14,430 and the final invoice, dated April 13, 2010, for $14,430. The contractor identified the same contract renovation work on 2 units plus an unspecified location of painting of hallways in 10 units on both invoices. Further, the contractor's two invoices did not show that the original scope of work (painting 30 units) and the change order work for renovation work on the third unit had been completed. We did not locate documentation in the Commission's contract file to explain these discrepancies.

For the Commission's tile replacement contract, the contract file did not contain documentation to determine whether the Commission performed progress inspections to justify the contractor's first invoice, dated September 1, 2009, for $11,380 and the second and final invoice, dated October 27, 2009, for $11,743. When we conducted a walk-through inspection in September 2010, the Commission's property management coordinator and financial reporting manager disclosed that the Commission allowed a change in the work location in one of its housing units. Initially, the scope of work was to replace tile for housing units on the second and fifth floors; however, the first floor was substituted for the second floor. This change was not documented in the Commission's contract file. Additionally, we interviewed a representative of the contractor who confirmed

that the change was made and verified that the contract file contained no record of this change. Additionally, the contractor did not report the change on the two invoices that it submitted to the Commission for payment.

For the Commission's contract to perform elevator upgrades, the amount of the awarded contract was $41,584 more than the original bid proposal of $110,000 for the replacement of elevator door operators for eight elevators. The difference of $41,584 was added to the contract to cover unforeseen and outstanding elevator repairs not covered by the Commission's maintenance service agreement. Therefore, the contract increased to $151,584 ($110,000 + $41,584) (see finding 1). The $41,584 included outstanding repairs before and after the contract was executed.

The Commission was unable to provide documentation to determine whether HUD approved this increase. Additionally, there was no correspondence in the Commission's contract file indicating a change order for the additional $41,584. According to OMB Circular A-87, any preagreement costs require HUD's written approval. Of the $41,584 in outstanding repairs, HUD identified three invoices for repairs totaling $19,341 that were incurred before the contract date of April 20, 2009. HUD's Detroit Office of Public Housing also identified this issue in its Recovery Act monitoring report, dated December 10, 2010, and referred this issue to HUD headquarters for a final determination on eligibility. As of September 6, 2011, HUD had determined that the $41,584 was ineligible.

The Commission Did Not Ensure That Contractors Performed in a Timely Manner

For three contracts, the Commission did not ensure the contractors performed the work specified in their contracts in a timely manner. Additionally, the Commission's contract files did not contain documentation to determine whether the contractors requested extensions to the completion dates identified in their contracts and whether the Commission approved the extended timeframes. In reviewing the Commission's contract files for these three contracts, we determined the following:

The Commission executed a contract on September 21, 2009, in the amount of $11,205 for a physical needs assessment as required by its amended annual contributions contract with HUD. The contractor's preliminary report was supposed to be completed in 30 days. However the Commission did not receive the physical needs assessment report until February 2011. The Commission used its Recovery Act funds to pay for the assessment. However, HUD advised public housing authorities not to budget any Recovery Act funds for physical needs assessments.[2]

[2] July 24, 2009, Frequently Asked Questions on HUD's Office of Capital Improvements Web site.

- The Commission executed a contract on January 29, 2010 in the amount of $21,351, for sidewalk and driveway repairs and brickwork. According to the contract, the contracted work was supposed to be completed in 2 months. The Commission made two payments to the contractor totaling $17,500. However, as of March 10, 2011, the work had not been completed.

- The Commission executed a contract on February 25, 2010, for carpet and tile installation for 32 efficiency and 24 1-bedroom units. The amount of the contract was $21,404, and the term was 4 months. The contractor submitted one invoice in the amount of $9,322 for contract work on 18 units only in July 2010. No other payments had been made on this contract (see finding 3).

Conclusion

The Commission failed to comply with Federal requirements and its own contract administration procedures. The problems occurred because the Commission lacked adequate procedures and controls for administering contracts and designating responsibilities among its staff to ensure that contractors performed in accordance with their contracts. As a result, HUD and the Commission lacked assurance that the Commission properly expended its Recovery Act capital funds.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

2A. Develop written procurement procedures to ensure that contracts include a statement of work that includes the scope and location of the work to be performed.

2B. Maintain a system of contract administration to ensure that contractors perform in accordance with their contracts. These systems should include but not limited to policies and procedures for obtaining certified weekly payrolls; inspecting supplies, services, or construction work; obtaining a notarized certificate and release from each construction contractor and subcontractor; and obtaining warranties from manufacturers and contractors on equipment and systems.

2C. Obtain missing contract administration documents and retain them in the contract files in an organized manner.

2D. Implement adequate procedures and controls to ensure that it complies with HUD's requirements. These procedures and controls would include the development and training of its staff on HUD and Federal contract administration requirements.

2E. Reimburse HUD $17,500 from non-Federal funds for contract work involving repairs to the Commission's sidewalks and driveways and brickwork that were not completed for HUD to recapture and transmit to the U.S. Treasury.

2F. Reimburse HUD $11,205 for the physical needs assessment paid with its Recovery Act funds for HUD to recapture and transmit to the U.S. Treasury. However, the Commission could pay for the activity with its 2010 capital funds.

We also recommend that the Director of Public Housing, Detroit Office to

2G. Recapture the remaining $3,851 that the Commission obligated but had not expended for repairs to its sidewalk, driveway, and brickwork for transmission to the U.S Treasury.

2H. Follow established procedures for addressing public housing authorities designated as substandard physical, including but not limited to amending the Commission's existing memorandum of agreement with HUD to incorporate the recommendations cited in this audit report.

Finding 3: The Commission Did Not Properly Administer and Account for Vacant Unit Turnovers Performed by Its Force Account

The Commission did not properly administer and account for vacant unit turnovers by its force account. It was unable to (1) provide adequate documentation to support more than $55,000 spent on force account unit turnovers and (2) ensure that it paid its force account staff the appropriate Federal prevailing wage rates under the Davis-Bacon Act. This condition occurred because the Commission lacked adequate procedures and controls to ensure that it applied Federal prevailing wage rates to its force labor account for vacant unit turnovers and did not comply with HUD's and its own procurement requirements. Further, the executive director was unaware that Federal prevailing wage rates applied to force account labor. As a result, HUD could not be assured that the Commission properly expended its Recovery Act funds.

HUD Allowed the Commission To Use Its Force Account for Unit Turnover Work Using Recovery Act Funds

HUD's Detroit Office of Public Housing approved the Commission to use its maintenance staff to obligate more than $24,000 in June 2009 for cycle painting and carpet removal work for vacant and occupied units. However, the Commission did not identify the units involved in the scope of work.

In January 2010, the Commission was again allowed to use its force account for other unit turnover work, which consisted of cleaning, pest control, carpet removal, wall preparation, painting, stripping and waxing floors, and carpet installation. Therefore, it obligated more than $55,000 for its force account to prepare 34 efficiency and 1-bedroom units for occupancy. However, the Commission did not disclose to HUD in its cost proposal to use force account labor that it did not have the expertise for carpet installation work.

According to HUD regulations at 24 CFR (Code of Federal Regulations) 968.120, a public housing agency may undertake activities using force account labor only when specifically approved by HUD, except that no prior HUD approval is required when the public housing agency is designated as both an overall high performer and moderate high performer under HUD's Public Housing Management Assessment Program.

The Commission Could Not Support Force Account Labor for Unit Turnover Work

In February 2010, HUD's Office of Labor Relations performed a review of the Commission's use of its labor force account for vacant unit turnovers during fiscal year 2009. The Commission provided supporting payroll records, wage restitution calculation worksheets, and a printout of all maintenance work orders generated during 2009 to support the wages paid for its force account housing unit turnovers. When we reviewed the Commission's supporting payroll records that it provided to HUD's Office of Labor Relations, we determined that the documentation was not sufficient. In particular, the documentation only identified that 19 units were completed by its force account instead of the 34 units that were identified in the scope of work. Further, six of the housing units that were identified as being turned over by its force account, were also identified in the scope of work for one of the Commission's contractors.

Additionally, the printout of the maintenance work orders for the 19 units was based on estimates provided in the Commission's proposal to HUD for the use of its force account labor to perform unit turnovers instead of actual maintenance work orders to properly account for actual force account labor and material costs**.** In addition, the maintenance employees usually reported the location of unit turnover work on biweekly timesheets. Therefore, in reviewing these timesheets, we noted that the Commission's force account performed unit turnovers on additional housing units and during timeframes not previously disclosed to HUD's Office of Labor Relations. Since the completed maintenance work orders were based on time estimates only, we recalculated the wage restitution owed to each employee based on the actual hours shown on the employees' timesheets when unit turnover work was reported. This analysis identified a total of $66,210 in wage restitution owed to six maintenance employees.

The Commission Created a Conflict-of-Interest Relationship

The Commission created a conflict-of-interest relationship when it awarded a $21,404 contract to one of its maintenance employees to perform carpet installation services for its housing units in February 2010. The maintenance employee had a carpentry business; however, instead of properly procuring carpet installation services, the Commission hired the person as a full-time employee. According to the Commission's finance director, the Commission hired the carpet installer as a maintenance employee in July 2009 so it could pay him in a timely manner due to the delay in obtaining Recovery Act funds from HUD. As of August 10, 2010, $9,322 in Recovery funds had been expended under this contract.

HUD Performed a Year II Recovery Act Expenditure Review of the Commission's Recovery Act Grant

While we were conducting our review, HUD's Detroit Office of Public Housing Division selected the Commission for a comprehensive review of its administration of the Recovery Act program in November 2010 and issued a monitoring report on December 10, 2010, that identified similar issues with the Commission's administration of its Recovery Act grant. The monitoring report initially identified 23 issues involving questioned and unsupported costs and wage underpayments for the Commission's force account and contract unit turnover costs. The Commission's response to the monitoring report, dated December 22, 2010, resolved 2 of the 23 reported issues; however, 21 were still outstanding.

Conclusion

The Commission did not properly administer and account for vacant unit turnovers by its force account as required by HUD. This condition occurred because the Commission's executive director failed to obtain an understanding of financial management standard requirements for documenting force account unit turnover costs and disregarded HUD's and its own procurement requirements. Additionally, he was unaware of the applicability of the Davis-Bacon Act for force account labor until February 2010 during a HUD monitoring visit. Therefore, the two proposals submitted to HUD to use force account labor did not include all unit turnover costs. As a result, HUD could not be assured that the Commission properly expended its Recovery Act funds.

Additionally, due to the Commission's misinterpretation of Federal requirements, it elected not to complete the vacant unit turnovers using its force account. Consequently, the Commission suspended the use of $24,149 of its Recovery Act funds that was allocated for its force account.

Recommendations

We recommend that the Director of Public Housing, Detroit Office, require the Commission to

3A. Reimburse wage restitution of $66,210 to its force account staff and provide proof that the payments were made to HUD's Office of Labor Relations.

3B. Identify the specific units assigned to each maintenance staff member for phase II unit turnover work and to the contractor for phase III unit turnover work and provide support to show when each unit was assigned, what work was to be done, who worked in the units, and when the work was performed, showing the days and hours spent in each unit until it was approved as completed. If the Commission cannot provide satisfactory records to support unit turnover costs and that duplicate unit turnover work was not performed, HUD should require that these costs be returned to HUD.

3C. Reimburse HUD $9,322 from non-Federal funds, due to the conflict-of-interest relationship, for transmission to the U.S. Treasury for the inappropriate use of grant funds.

3D. Implement adequate procedures and controls to ensure that the Commission complies with HUD's requirements and its policies regarding conflict of interest.

We also recommend that the Director of Public Housing, Detroit Office, to

3E. Prohibit the use of force account labor for any future unit turnover work until it can prove to HUD that it has the capacity to perform this work.

3F. Recapture all funds that the Commission obligated for unit turnovers by its force account for transmission to the U.S. Treasury. This amount includes the work item for cycle painting and carpet removal work by its force account for $24,149 and $12,082 that was inappropriately obligated due to the Commission's conflict-of-interest relationship that has not been spent.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the Commission's administrative office located at 132 Franklin Boulevard, Pontiac, MI, between September 2010 and January 2011. The audit covered the period March 18, 2009, through August 31, 2010. The audit period was extended as necessary.

To accomplish our objectives, we reviewed

- The Commission's contract with HUD; the Recovery Act grant agreement; HUD's program requirements at 24 CFR Parts 85, 903, and 968; OMB Circular A-87; HUD Handbook 7460.8, REV-2; HUD Handbook 1344.1, REV, CHG-1; HUD's Office of Public and Indian Housing Notice PIH 2009-12; and applicable laws and regulations.

- The Commission's financial and accounting records; audited annual financial statements for fiscal years 2008 and 2009; detailed general ledger for the period March 2009 through August 2010; Line of Credit Control System fund drawdown records; bank statements; journal vouchers; organizational charts; operating budgets; by-laws; board meeting minutes; annual public housing agency plans for 2008 through 2010; and annual statements for the Recovery Act and Capital Fund program years 2007, 2008, and 2009.

- The Commission's maintenance work orders and reports listing all completed maintenance work orders for the period March 2009 to August 2010 and maintenance employee payroll timesheets, payroll vouchers, and pay stubs for 2009 for unit turnover work.

- The Commission's procurement policy, procurement records (bid solicitations, bid proposals, independent cost estimates, contract awards, and contract correspondence), invoice payments, and labor standards enforcement records (weekly payroll records, wage determinations from the U.S. Department of Labor, and employee interview records).

To select our audit sample, we obtained reports from HUD's Line of Credit Control System to identify the amount of each request submitted by the Commission during the audited period. Each submission represented a drawdown request from the Commission against the specified year's Capital Fund grant. We also obtained the expenditure submission for approval requests for each drawdown request from the Commission. We compiled the amounts of the Capital Fund program expenditure requests for the audit period, March 18, 2009, through July 31, 2010, as of August 31, 2010. During this period, the Commission submitted 12 expenditure submission requests for 53 invoices totaling more than $550,000 and received disbursements for 11 drawdown requests for 52 invoices totaling more than $539,000. For our audit sample, we selected every fifth invoice for review totaling 10 of the 52 invoices.

We analyzed the data and concluded that the data were sufficiently reliable for our purposes of sample selection. We reviewed whether each selection was supported by proper documentation and whether each selection was an allowable expense under the grant.

We also interviewed the Commission's current employees, HUD staff, and a representative from three contractors. We conducted onsite observations of six selected construction contracts funded by the Recovery Act at the Carriage Circle and Woodland Heights housing developments to observe the progress of work.

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 information, 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 the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.

- Reliability of financial controls – Policies and procedures that the audited entity has implemented to ensure that payments are properly authorized and that the entity receives the goods and services it has paid for.

- Compliance with applicable laws and regulations – Controls that the audited entity has implemented in its policies and procedures to reasonably ensure that resource use is 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 Deficiencies

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

- The Commission did not ensure that its contractors complied with the Davis Bacon Act (see finding 1).

- The Commission failed to comply with HUD's and its own contract administration requirements (see finding 2).

- The Commission did not properly administer and account for vacant unit turnover work by its force account (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1B	$4,357
2E	17,500
2F	11,205
2G	3,851
3A	66,210
3C	9,322
3F	36,231
Totals	$148,676

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

"POINTING TOWARDS PROGRESS" **Pontiac Housing Commission**

132 Franklin Boulevard

(248) 338-4551
Fax (248) 338-7996

September 28, 2011

Mr. Anthony Smith-Assistant Regional Inspector General for Audit
Detroit Office of Inspector General
Patrick V. McNamara Federal Building
477 Michigan Avenue, Room 1780
Detroit, MI 48226-2592

RE: Exit Conference Briefing AARA Program Final Audit Report

Dear Mr. Smith:

The Pontiac Housing Commission would like to thank you and your staff for a very informative exit conference in regards to the AARA Program, in which your objective was to determine whether the Commission properly obligated and expended its formula grant and related procurements complied with U.S Department of Housing and Urban Development and Recovery Act requirements. The following (3) Audit Findings were outlined in your report:

- Commission did not ensure that its contractors complied with the Davis Bacon Act
- Commission did not Comply with its own contract administration requirements
- Commission did not properly administer and account for vacant unit turnovers performed by its force account

In response to the discussion draft audit report findings, the Pontiac Housing Commission would like to provide written comments for inclusion of the OIG's final report. Time & reporting was of the high importance during the AARA process, and during this process technical assistance was required and requested from our agency. Consequently, a few of the audit findings can be directly attributed to technical support provided from the Detroit Field Office that may have resulted from the numerous changes in the AARA guidance that were made apparent during the initial stages of the AARA Program.

Comment 1

Furthermore, the Pontiac Housing Commission has been working closely with the Detroit Field Office on many of the recommendation that will be presented to the Field Office Director, in effort to resolve all audit issues. Currently the PHC is awaiting a recent AARA Review response from the field office that addressed several of the recommendations contained in the final OIG report. Provided for you are attachments that relates to **(Audit Finding 2E & 2G)** and review responses to the field office regarding the factors contributing to the above audit findings.

We would like to thank you and your staff for sharing your recommendations of the final review and we shall definitely use this experience as a tool for growth for our agency.

Sincerely,
//signed//
Franklin Hatchett
Executive Director

Cc: Ahmad R. Taylor, Finance Report Manager
Steven Hamersley, Finance Director

OIG Evaluation of Auditee Comments

Comment 1 We acknowledge that the Commission has been working with the Detroit Field office to resolve the audit findings. However, we reviewed the support documentation that the Commission provided for Recommendations 2E and 2G regarding the Commission's contract work involving repairs to their sidewalk and driveway and brickwork. The Commission granted the contractor an option to extend the term of this contract because of seasonal scheduling and personal extenuating circumstances. However, we could not determine based on the support provided whether the work was completed during the extended period of July 7, 2011.

Therefore, the recommendations to reimburse HUD $17,500 from non-Federal funds for contract work involving repairs to the Commission's sidewalks and driveways and brickwork that were not completed for HUD to recapture and transmit to the U.S. Treasury; and for HUD to recapture the remaining $3,851 that the Commission obligated but had not expended for repairs to its sidewalks, driveway, and brickwork for transmission to the U.S. Treasury will remain in the audit report.

Appendix C

FEDERAL AND COMMISSION REQUIREMENTS

HUD Handbook 1344.1, REV-1, Labor Standards Enforcement Handbook, requires public housing agencies to monitor enforcement of labor standards for the payment of prevailing wage rates in all construction contracts over $2,000 involving Federal funds. Also, HUD's Procurement Handbook 7460.8, chapter 10, paragraph 10-9, states that all laborers and mechanics in construction contracts over $2,000 must be paid wages in accordance with Federal labor standards issued by the U.S. Department of Labor.

The Commission's procurement policy, adopted on July 8, 2009, requires it to maintain a system of contract administration to ensure that contractors perform in accordance with their contracts. These systems must provide for inspection of supplies, services, or construction, as well as monitoring of contractor performance, status reporting on major projects including construction contracts, and similar matters.

The Commission's policy also prohibits an employee, officer, or agent of the grantee or subgrantee from participating in the selection, award, or administration of a contract supported by Federal funds.

The U. S. Department of Labor issues Davis-Bacon Act wage determinations reflecting prevailing wages and benefits paid by the construction industry within specific localities. These wage determinations are further classified by the nature of the construction projects, specifically listed as "schedules," which include the following: residential, building, highway, and heavy construction. Residential construction includes the construction, alteration, or repair of single-family houses and apartment buildings of no more than four stories in height. Heavy construction includes those projects that are not properly classified as either "building," "highway," or "residential."

HUD Handbook 7460.8, HUD's Procurement Handbook for Public Housing Agencies, chapter 10, states the requirements for contract modifications and record keeping for federally funded contracts. Chapter 11 of this handbook identifies various contract administration requirements and suggestions for preconstruction conferences, progress meetings, periodic inspections, labor standards enforcement records, progress payments, time extensions, final inspections, final payments, and warranty inspections.

Chapter 11 states that the contractor is responsible for completing the work within the time established in the contract. The public housing agency is responsible for monitoring the contractor to ensure that work will be completed as scheduled. The public housing agency may authorize justifiable time extensions without prior HUD review and approval, unless the public housing agency is subject to prior HUD approval under a HUD established threshold that is less than the requested amount. Such time extensions should be formalized in a written modification to the contract.

HUD's regulations at 24 CFR 85.36(2) state that grantees and subgrantees must maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

HUD's regulations at 24 CFR 85.20 state that accounting records must be supported by source documentation, such as payroll time and attendance records.

HUD regulations at 24 CFR 85.36(b)(3) prohibit an employee, officer, or agent of the grantee or subgrantee from participating in the selection, award, or administration of a contract supported by Federal funds.

HUD's Procurement Handbook 7460.8, chapter 4, prohibits an employee from having any interest in a contract awarded by the public housing agency. Chapter 9 of the handbook states that the scope of work statement in a contract should be clear, specific, and detailed regarding the task requirements, end results, and deliverables. Chapter 11 states that public housing agencies are responsible for administration and enforcement of labor standards requirements as provided in HUD Handbook 1344.1, REV.

Chapter 7 of HUD Handbook 1344.1 states that laborers and mechanics employed by a public housing agency are subject to the Davis-Bacon Act when performing development work financed by HUD.

HUD's Notice PIH 2009-12, Recovery Act Requirements, paragraph VII, defines "force account" as labor employed directly by the public housing agency and "obligations" involving force account work as all funds for a group of sequentially related physical work items when the first item is started before the 1-year obligation deadline.