



Issue Date	October 12, 2011
Audit Report Number	2012-FW-1002

TO: David Pohler, Director, Office of Public Housing, 6JPH

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FROM: Gerald R. Kirkland  
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Housing Authority of the City of Corpus Christi, TX, Generally  
Administered Recovery Act Capital Funds in Compliance With the Recovery Act

## **HIGHLIGHTS**

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

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009, we audited the Public Housing Capital Fund Stimulus (formula) Recovery Act-funded activities of the Corpus Christi Housing Authority in Corpus Christi, TX. Our objective was to determine whether the Authority expended Recovery Act funds in accordance with Recovery Act rules and regulations and submitted timely Recovery Act performance reports.

### **What We Found**

Generally, the Authority complied with Recovery Act requirements. However, it used more than \$6,000 in Recovery Act funds for ineligible and unsupported purposes including (1) the purchase of furniture that was not made in America and other furniture, the origin of which was unclear; (2) incidental relocation expenses that it did not support with receipts; and (3) general purpose office supplies. In addition, the Authority could better use more than \$2,000 in misallocated Recovery Act salary expenses and impending ineligible relocation expenses. It also submitted one late quarterly performance report. These minor exceptions occurred because the Authority's program staff was not aware of

Recovery Act requirements and the Authority had not implemented effective controls over cost eligibility, cost allocation, and payroll processing. The late performance report was caused by competing work priorities.

### **What We Recommend**

We recommend that the Director of the U. S. Department of Housing and Urban Development's (HUD) Office of Public Housing require the Authority to develop and implement effective controls over its Recovery Act activities to ensure that (1) its payroll processing, purchasing, cost eligibility, and cost allocation comply with Recovery Act and HUD requirements; (2) its staff is aware of program requirements; and (3) only allowable costs are charged to program accounts. Also, the Authority should use non-Federal funds to reimburse \$2,173 to the U. S. Treasury, including \$660 for furniture that was not made in America in violation of program requirements, \$1,450 for ineligible relocation payments, and \$63 for ineligible office supplies. Further, the Authority should provide support showing that furniture at Ruthmary Price was made in America or reimburse \$4,302 to the U. S. Treasury. Finally, the Authority should change its relocation policy so that it does not incur an additional \$1,450 in ineligible relocation payments and reallocate \$411 in Recovery Act salaries that it misallocated to the low-rent program and \$557 that it misallocated among other Federal and non-Federal programs as indicated by employee timesheets.

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 our discussion draft to the Authority on September 23, 2011, and held an exit conference on September 28, 2011. We requested a written response by September 28, 2011, and the Authority provided its response on September 30, 2011. The Authority agreed with some conclusions and disagreed with others. The Authority provided explanations to support its position. We reviewed the explanations and revised the report where appropriate. The complete text of the Authority'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 City of Corpus Christi established the Housing Authority of Corpus Christi, TX, in 1938. The governing body of the Authority is its five-member board of commissioners appointed by the mayor. The board hires an executive director to manage the Authority's day-to-day operations. The Authority provides low-cost housing for more than 4,000 people and has more than 1,800 units. The Authority's services include assistance to the elderly with daily living, medical needs, and transportation, while its family assistance programs provide help with childcare, transportation, counseling, dispute resolution, and housekeeping.

The American Recovery and Reinvestment Act of 2009 was signed into law on February 17, 2009. It provided \$4 billion for public housing agencies to carry out capital and management activities, including modernization and development of public housing. It allocated \$3 billion for formula grants and \$1 billion for competitive grants. The Recovery Act required public housing agencies to obligate 100 percent of the funds within 1 year of the date on which 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 Authority received a little more than \$3.5 million in Recovery Act Public Housing Capital Fund program grant funds.

The Authority used Recovery Act funding for interior and exterior repairs to its public housing units, infrastructure, and site improvements and to replace appliances. The Authority's Recovery Act activities for each of its properties are included in appendix C, along with pictures of some of the activities.

Our objective was to determine whether the Authority expended Recovery Act funds in accordance with the Recovery Act rules and regulations and submitted timely Recovery Act performance reports.

## RESULTS OF AUDIT

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### Finding: The Authority Generally Complied With Recovery Act Requirements

The Authority generally complied with Recovery Act rules and regulations. It (1) met the time deadlines for both obligations and expenditures, (2) used funding to address items identified on its needs assessment and annual plan, (3) used appropriate methods to award professional service and construction contracts in accordance with its amended procurement policy as required by the Recovery Act, and (4) submitted all but 1 of its 14 Recovery Act reports<sup>1</sup> in a timely manner. However, the Authority did not fully comply with the Recovery Act because it was unaware that some Recovery Act requirements differed from Authority policy and did not update all of its procedures and controls to reflect the Recovery Act requirements. As a result, the Authority incurred more than \$6,000 in ineligible and unsupported costs and will incur more than \$1,000 in additional ineligible costs if it does not update its procedures and controls for Recovery Act funds.

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#### **The Authority Obligated and Expended Recovery Act Funds by the Required Deadlines**

By March 17, 2010, the Authority had obligated all of its Recovery Act grant funds to address identified needs at nine properties. The obligations included three architectural and engineering contracts and five construction contracts for site improvements, roofing, windows, interior and exterior renovations, security cameras, and security fencing. The interior renovations included new appliances, while the exterior renovations included the installation of hurricane-resistant window coverings. By March 31, 2011, the end of the audit period, the Authority had expended 93 percent of its Recovery Act grant funding for these activities. Examples and photographs of the Authority's Recovery Act activities are in appendix C.

#### **The Authority Violated Recovery Act Requirements**

With a few minor exceptions, the Authority's Recovery Act expenses were eligible, supported, and reported in a timely manner. However, the Authority (1) did not fully comply with the Recovery Act's "made in America" requirements, (2) made ineligible relocation payments to tenants, (3) misallocated salary expenses, (4)

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<sup>1</sup> Recovery Act Management Performance System reports

inappropriately used Recovery Act funds for general office supplies not used solely for Recovery Act activities, and (5) submitted 1 of 14 performance reports late.

#### **Furniture Was Not Made in America**

The Authority paid \$4,962 in Recovery Act funds to purchase furniture that it could not show was made in America as required because program staff was unaware of the “made in America” requirement. Although Section 1605 of the Recovery Act requires manufactured goods to be made in America, a furniture sales representative identified \$660 in furniture items that were manufactured and assembled outside of the United States. The Authority did not provide evidence to show that the remaining furniture items, costing \$4,302, were made in America.

#### **Relocation Payments Were Ineligible**

The Authority made \$1,450 in ineligible relocation payments for incidental expenses to assist 29 tenants in temporarily relocating from a property that it was renovating with Recovery Act funds. According to the Authority, its policy did not require a receipt for the incidental relocation payments and allowed the Authority to provide additional assistance if the tenants submitted receipts. The Authority made the ineligible payments because its policy conflicted with HUD requirements<sup>2</sup> and its program staff was unaware of the conflict. The Authority’s relocation policy allowed it to provide \$100 in relocation payments for incidental expenses to temporarily displaced tenants without receipts. The Authority paid each of the 29 tenants \$50 for incidental expenses related to the move out and expected to pay \$50 to each tenant for incidental expenses related to each tenant’s return to a renovated unit. The Authority’s program staff was unaware that HUD requires grant funds to be used for reasonable, necessary, and adequately documented expenses. The Authority will incur an additional \$1,450 in ineligible relocation payments for returning tenants unless it changes its policy.

#### **Recovery Act Payroll Expenses Were Misallocated to Its Low-Rent Program**

The Authority misallocated \$411 in Recovery Act salary expenses to its low-rent program and another \$557 among the Authority’s other Federal and non-Federal programs. This error occurred because the Authority did not accurately copy timesheet information into its computerized payroll system and did not have an independent review or reconciliation of payroll allocations. The Authority recently changed its payroll processing procedures and consolidated payroll processing into a single department. It should reevaluate its payroll processing controls to help ensure that salary costs are accurately allocated among program accounts. It should also use \$411 in Recovery Act funds to repay its low-rent program and review employee timesheets to determine to which program account the remaining \$557 in Recovery Act funding should be reallocated.

#### **Recovery Act Funds Were Used for General Purpose Office Supplies**

The Authority used \$63 to purchase general use office supplies for the Capital Fund program construction office. This was the Authority’s only purchase from an office

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<sup>2</sup> OMB Regulation, 2 CFR, Part 225 Attachment A Section C.1.

supply retailer using Recovery Act funds, and it occurred because the Authority's program staff did not know that grant costs are allowable for Federal reimbursement only to the extent of benefits received or that Recovery Act funds could not be used for operating expenses.

### **One of 14 Performance Reports Was Not Made in a Timely Manner**

Despite a letter from HUD requiring the Authority to submit environmental reports within 10 days of the end of the quarter, the Authority submitted its December 31, 2010, quarterly environmental report 18 days late. The quarterly report was due by January 10, 2011 but the Authority submitted the report on January 28, 2011. Authority staff members explained that they turned the report in late because they had other priorities.

## **Conclusion**

The Authority generally complied with Recovery Act rules and regulations. However, Authority management did not implement effective controls over cost eligibility and allocation and payroll processing, resulting in questioned costs and funds that can be put to better use of nearly \$9,000. Further, the Authority submitted 1 of its 14 quarterly reports 18 days after it was due.

## **Recommendations**

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

- 1A. Revise controls to include Recovery Act requirements and review payroll processing procedures and revise as appropriate to ensure that salary expenses are accurately allocated among its program accounts.
- 1B. Use non-Federal funds to repay \$660 to the U. S. Treasury for furniture not made in America.
- 1C. Provide support showing that furniture identified in this report was made in America or repay \$4,302 to the U. S. Treasury.
- 1D. Use non-Federal funds to repay \$1,450 to the U. S. Treasury for ineligible tenant relocation payments.
- 1E. Change its relocation policy to require receipts for all relocation payments so that it does not incur \$1,450 in additional ineligible relocation costs, thereby putting the funds to better use for eligible and supported costs.

- 1F. Use non-Federal funds to repay \$63 to the U. S. Treasury for ineligible office supplies.
- 1G. Use \$411 in Recovery Act funding to repay its low-rent program for misallocated salary expenses.
- 1H. Reallocate \$557 in Recovery Act funding to repay its Federal and non-Federal programs for misallocated Recovery Act salary expenses as recorded on employee timesheets.

## SCOPE AND METHODOLOGY

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We conducted our audit work at the Authority's central office located at 3701 Ayers Street in Corpus Christi, TX, and in the HUD Office of Inspector General's (OIG) office in San Antonio, TX. We performed our audit work between April 19 and September 9, 2011. The Audit covered the period March 1, 2009, through March 31, 2011. We limited our scope to the Authority's Recovery Act reimbursements and related expenditures and program performance reporting during the review period. We adjusted the scope as necessary to meet the audit objective.

To accomplish our objective, we performed the following steps as they related to the Authority's Recovery Act Capital Fund formula grant:

- Reviewed relevant laws, regulations, and HUD guidance.
- Reviewed applicable minutes of the Authority's board of commissioners.
- Reviewed the Authority's audited financial statements for fiscal year 2009 and the unaudited financial statements for fiscal year 2010.
- Reviewed the Authority's annual plan, 5-year action plan, and needs assessment.
- Reviewed the Authority's procurement records for all Recovery Act contracts.
- Selected and reviewed a nonstatistical, representative sample of expenditures to determine whether disbursements were adequately supported.
- Interviewed Authority staff to determine its procedures for procurement, cost allocation, accounts payable, and performance reporting.
- Reviewed the Authority's Recovery Act reporting for timeliness and accuracy.
- Conducted site visits of and photographed representative activities to illustrate the Authority's use of formula grant funds.
- Interviewed HUD Office of Public Housing staff in San Antonio and Fort Worth, TX, and Washington, DC.

We selected a nonstatistical, representative sample of 26 of the Authority's 131 Recovery Act expenditures. The 26 samples, valued at more than \$1 million, represented 31 percent of the Authority's total Recovery Act expenditures of more than \$3.2 million. We used a nonstatistical sample because we were evaluating the Authority's payment procedures and not projecting a dollar value of errors in its total expenditures.

Information system data was used for background or information purposes only. We obtained payroll expense data from the Authority's computerized payroll system and used source documents to confirm the misallocated payroll expense amounts included in the finding. We did not project results to the population.

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 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 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 audit objective:

- Controls to ensure the Authority's financial accounting accuracy.
- Controls to ensure that the Authority submits accurate periodic reports of its Recovery Act activities and accomplishments in a timely manner.
- Controls to ensure that the Authority's Recovery Act expenditures, including the procurement of goods and services, comply with Recovery Act requirements.

We assessed the relevant controls identified above.

A deficiency in internal controls 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.

We did not note any items that we believe to be significant deficiencies.

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1B	\$660		
1C		\$4,302	
1D	1,450		
1E			1,450
1F	63		
1G			411
1H			<u>557</u>
Totals	<u>\$2,173</u>	<u>\$4,302</u>	<u>\$2,418</u>

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.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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 recommendation 1E, the Authority will not incur \$1,450 in ineligible incidental relocation expenses if it changes its policy to disallow relocation expenses not supported by receipts. In recommendations 1G and 1H, the Authority should use Recovery Act funds to repay the Federal and non-Federal programs to which it misallocated Recovery Act salary expenses.

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments

##### BOARD OF COMMISSIONERS

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WILLIAM D. BONILLA, Vice-Chairperson  
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##### CORPUS CHRISTI HOUSING AUTHORITY

**Executive Offices**  
3701 Ayers Street  
Corpus Christi, Texas 78415

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Website: [www.hacc.org](http://www.hacc.org)

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September 30, 2011

Mr. Gerald R. Kirkland, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General, Region VI  
819 Taylor Street, Suite 13A09  
Fort Worth, TX 76102

Dear Mr. Kirkland:

Attached you will find our written response to the draft audit report of the Corpus Christi Housing Authority's administration of the Recovery Act Capital Funds grant. Although we do not agree with all the findings contained in the report, we look forward to the resolution of the disputed items.

Thank you for your consideration of our response, and we look forward to the issuance of the final audit report with the requested adjustments.

Sincerely,

Joanna Moreno  
Executive Vice President

## **Requested Responses to HUD OIG Draft Report Dated September 22, 2011**

### **The Authority did not fully comply with the Recovery Act's "made in America" requirements.**

The Authority paid \$4,962 in Recovery Act funds to purchase furniture that it could not show was made in America as required because program staff was unaware of the "made in America" requirement.

#### **Comment 1**

Authority's Response: Pursuant to PIH Notice 2009-31, *PIH Implementation Guidance for the Buy American Requirement of the American Recovery and Reinvestment Act of 2009 including Process for Applying Exceptions*, issued August 21, 2009, Section 1605 (the "Buy American requirement) of the Recovery Act states that: "...for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States." It is our contention that the "made in America" requirement is not applicable in this instance. Furthermore, as noted in the same notice, Section V.4. National (Categorical) Exceptions Granted, "Where the size of a contract funded with CFRFC grant assistance is less than \$100,000, regardless of the size of the PHA, the Buy American requirement is not applicable."

### **The Authority made ineligible relocation payments to tenants.**

The Authority made \$1,450 in ineligible relocation payments for incidental expenses to assist 29 tenants in temporarily relocating from a property that it was renovating with Recovery Act funds.

#### **Comment 2**

Authority's Response: The Authority concedes that it was operating under an older version of HUD Handbook 1378, Section 3.2 (c), Displaced Public Housing Tenants, which states that in the case of a PHA election to move the tenant, at no cost to the tenant, then in such a case, the tenant is entitled to a dislocation allowance of \$50. However, the updated version, effective April 2008, continues to allow for a payment limited to \$100 in the case of a residential move that is performed by the agency at no cost to the tenant. The Authority will seek any training and technical assistance that HUD can offer regarding relocation assistance. If it is determined that a policy change is required, the Authority will modify its policy accordingly. Furthermore, if after further review, it is HUD's determination that this finding remain, then the Authority will reimburse \$1,450 for ineligible tenant relocation payments from non-federal funds, or if permissible, from a current CFP grant.

### **The Authority misallocated salary expenses.**

The Authority misallocated \$411 in recovery Act salary expenses to its low-rent program and another \$557 among the Authority's other Federal and non-Federal programs.

#### **Comment 3**

Authority's Response: The Authority agrees with this statement. Although an effective time-tracking allocation system, with an independent review of data, was in place, an oversight of a data entry error did occur. The Authority will use non-federal funds to reimburse \$411 to the low-rent program and \$557 to the correct program.

**The Authority inappropriately used Recovery Act funds for general office supplies not used solely for Recovery Act activities.**

The Authority used \$63 to purchase general office supplies for the Capital Fund program construction office. This was the Authority's only purchase from an office supply retailer using Recovery Act funds. Recovery Act funds could not be used for operating expenses.

**Comment 4**

Authority's Response: Pursuant to PIH Notice 2009-12, *Information and Procedures for Processing American Recovery and Reinvestment Act Capital Fund Formula Grants*, issued March 18, 2009, page 4 outlines Restrictions on Use of Funds, specifically, "All expenditures from Account 1410 (Administration) are limited to 10 percent of the total grant. A PHA may draw up to 10 percent of each expenditure reimbursement for administration of the Recovery Act grant." It is our contention that the restriction to the use of Account 1406 Operations as outlined in this notice is the correct interpretation of "used for operations or rental assistance activities." It was noted that because the office supplies were housed in the Capital Fund office (which is the office responsible for the ARRA grant), a determination as to the use of the supplies, i.e. binder clips and ink cartridges (were they used for ARRA purposes or the CFP program) could not be made. Since the funds for the office supplies was drawn on Account 1410, and were used for the administration of the Recovery grant, it is our contention that these funds were used appropriately.

**The Authority submitted 2 of 14 performance reports late.**

**Comment 5**

Authority's Response: As discussed at the exit conference, one of the two late reports was cleared. The report for quarter ending March 31, 2011 was submitted on April 8, 2011, within the 10 day requirement. The Authority acknowledges the importance of reporting deadlines, and continuously strives to ensure such requirements are met.

### **OIG Evaluation of Auditee Comments**

Comment 1: The Authority stated that the “Buy American” requirement did not apply because the furniture was purchased for less than \$100 thousand. We disagreed because the furniture is a manufactured good used in the project; therefore, subject to the “Buy American” requirement. We did not change the recommendation.

Comment 2: The Authority stated that HUD Handbook 1378, Section 3.2(c) updated April 2008 allows payments limited to \$100 when residential moves are performed by the agency at no cost to the tenant. The Authority also stated it would seek further guidance from HUD on this issue. We disagree. OMB Regulation, 2 CFR, Part 225 Attachment A Section C.1. requires costs to be reasonable, necessary, and adequately documented. We did not change the recommendation.

Comment 3: The Authority agreed that its payroll costs were misallocated and agreed with the recommendation.

Comment 4: The Authority contended that the funds for office supplies were used appropriately. We disagreed because the Authority could not show that the office supplies were used exclusively for the Recovery Act program. We did not change the recommendation.

Comment 5: The Authority admitted that one of its reports was late but disagreed that a second report was late. We reviewed the report dates, agreed that the second report was timely, and made appropriate changes to the report.

## Appendix C

### EXAMPLES OF RECOVERY ACT-FUNDED ACTIVITIES

The Authority used Recovery Act funding for interior and exterior repairs, new appliances, and infrastructure and site improvements as noted in the table below. The table shows examples of completed Recovery Act activities.

<b>Project name and development number</b>	<b>Recovery Act-funded activity</b>
Wiggins TX 08-01	Security fences, water, sewer, and gas lines
Ruthmary Price TX 08-11	Windows with hurricane protection, interior renovations, security cameras, security fencing, and concrete parking
Treyway Terrace TX 08-10	Windows with hurricane protection, security cameras, and roofing
Leeward Homes TX 08-14	Windows with hurricane protection, security cameras, and roofing
Clairelane Gardens Phase IV TX 08-08	Interior and exterior renovations, security cameras, security fences, gas ranges, and refrigerators
Parkway Homes I, TX 08-09	Concrete parking
Navarro Place TX 08-02	Security fences
Andy Alaniz I & II TX 08-15	Security cameras
McKinzie Manor I & II TX 08-12	Interior and exterior renovations, security cameras, and security fences

New windows and security cameras at Ruthmary Price



Interior renovations at Clairelaine



Security fencing at Navarro



Concrete parking at Parkway I

