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TO: Regenia Hawkins, Director, Office of Public Housing, 6APH

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

SUBJECT: The Housing Authority of the City of Mineral Wells, TX, Had Errors in the Administration of Its Recovery Act Public Housing Capital Fund Grant

HIGHLIGHTS

What We Audited and Why

To meet the Office of Inspector General's objective to review funds provided under the American Recovery and Reinvestment Act of 2009 and at the U. S. Department of Housing and Urban Development's (HUD) suggestion, we reviewed of the Housing Authority of the City of Mineral Wells Public Housing Capital Fund Stimulus (formula) Recovery Act funded activities. Specifically, our objectives were to determine whether the Authority followed Recovery Act rules and regulations when obligating and expending its Recovery Act capital funds and reported Recovery Act funds as required.

What We Found

Although the Authority used its Recovery Act grant funds for eligible activities, it had errors in its obligations, procurements, expenditures, and reporting. The errors occurred because the Authority was not familiar with some Recovery Act requirements. As a result, it spent \$6,400 that it did not obligate or expense in a timely manner and an additional \$7,745 that it did not properly expense. In addition,

the Authority's late and inaccurate reporting defeated the transparency goals of the Recovery Act.

What We Recommend

We recommend that the Fort Worth Director of the Office of Public Housing require the Authority to repay \$6,400 that it did not obligate in a timely manner and repay \$7,745 that it improperly expensed or provide other eligible costs. HUD should return the ineligible amounts to the U. S. Treasury. HUD should also ensure that the Authority has the appropriate training and HUD assistance regarding procurement for capital projects.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority and HUD our draft report on May 30, 2012. We held an exit conference on June 5, 2012. We requested the Authority's written response by June 12, 2012 and received it on June 11, 2012. The Authority agreed with the report and recommendations. 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 OBJECTIVES

The Housing Authority of the City of Mineral Wells, TX, is a governmental entity created by the City of Mineral Wells, TX. The governing body of the Authority is its board of commissioners, which consists of five members appointed by the City Council and the mayor of Mineral Wells. The City hired an executive director to administer the daily affairs of the Authority. The Authority has 60 public housing units and 235 Housing Choice Voucher program units. Annually, the Authority receives capital funds via a formula grant from the U. S. Department of Housing and Urban Development (HUD). The Authority may use its capital funds for development, financing, modernization, and management improvements for its public housing developments.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 became law. The Recovery Act provided \$4 billion for public housing agencies to carry out capital and management activities, including the 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.

HUD allocated \$114,057 to the Authority for one Recovery Act Capital Fund formula grant. HUD made the grant available to the Authority on March 18, 2009. The Authority replaced cabinets and countertops and purchased appliances for its public housing units with the grant. If the Authority failed to comply with the obligation deadline, HUD was required to recapture those obligations that did not meet the deadline¹ and return the funds to the U. S. Treasury for the sole purpose of deficit reduction.² HUD also required the Authority to use its Recovery Act formula grant on eligible activities already identified in either its annual statement or 5-year action plan. The HUD approved plans set forth all of the Authority's physical and management improvement needs for its public housing developments and must demonstrate the long-term physical and social viability of proposed projects, including cost reasonableness. If the Authority decided to undertake work items not in its approved plans, HUD required it to amend its approved plans.

Our audit objectives were to determine whether the Authority followed Recovery Act rules and regulations when obligating and expending its Recovery Act Capital funds and reported Recovery Act funds as required.

¹ Public Law 111-5

² The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) amended the Recovery Act, requiring recaptured funds to be returned to the U.S. Treasury and dedicated for the sole purpose of deficit reduction.

RESULTS OF AUDIT

Finding: The Authority Had Errors in the Administration of Its Recovery Act Grant

Although the Authority used its Recovery Act grant funds for eligible activities, it had errors in regard to obligations, procurement, expenditures, and reporting. The errors occurred because the Authority was not familiar with some Recovery Act requirements. As a result, it spent \$6,400 that it did not obligate or expense in a timely manner and an additional \$7,745 that it did not properly expense. In addition, the Authority’s late and inaccurate reporting defeated the transparency goals of the Recovery Act.

The Authority Did Not Obligate More Than 5 Percent of Its Recovery Act Grant

Although the Authority budgeted all of its Recovery Act funds in its annual plan and HUD’s Line of Credit Control System (LOCCS), it did not obligate \$6,400, or more than 5 percent, of the funds by the obligation deadline of March 17, 2010. According to HUD’s rules, an obligation occurred when there was a contract.³ The Authority accepted a bid for cabinet and countertop replacement totaling \$99,912 on February 23, 2010. As this amount exceeded that which the Authority had budgeted, it used \$8,260 of its administration fees to accommodate the cost overrun. In addition, the Authority awarded a contract in the amount of \$4,600 to oversee the cabinet and countertop replacement. Table 1 shows the amounts (1) budgeted in LOCCS in January 2012 and the Authority’s February 2010 annual statement, (2) reported as contracts in the Authority’s contracting records, and (3) determined not obligated by the Recovery Act deadline.

Table 1 Unobligated Recovery Act funds

Budget category	Description	Budgeted amount	Allowed-contracted amount	Unobligated amount
1410	Administration fees (cost overrun on dwelling structures)	\$11,405	\$3,145 8,260	\$0
1430	Fees and cost: architect, engineer, and reproduction services	11,000	4,600	\$6,400
1460	Dwelling structures	91,652	91,652	\$0
Totals		\$114,057	\$107,657	\$6,400

³ HUD Notice 2009-12

The Authority Did Not Properly Procure Its Contracts

The Authority did not follow Recovery Act procurement requirements in obtaining two contracts. For the contract to replace the cabinets in 57 of its units, the Authority did not prepare a cost estimate as required. Instead, it contacted several entities seeking bids. When three entities responded with bids that exceeded the total amount of Recovery Act funds available, the executive director communicated to the bidders that he only had \$114,000 in his Recovery Act grant. Each bidder submitted a new proposal, but each one bid on a different number of units to be repaired. The Authority selected the contractor that could repair the greatest number of units for the least cost per unit. In a review, dated March 22, 2010, HUD's Office of Public Housing determined that the Authority did not provide a complete bid package. Items missing included required wage determinations, small and minority-owned business considerations, instructions to bidders, and assurance that there was no conflict of interest in the procurement. HUD cleared the deficiencies on November 16, 2010.

An additional contract to oversee the cabinet installations in the amount of \$4,600 was obtained by the Authority. The Authority could not show that the contractor selection was competitive or the cost was reasonable. HUD did not question this procurement but rejected the Authority's LOCCS reimbursement due to budget issues.

The contracting errors occurred because the Authority did not have the procurement knowledge necessary to comply with Recovery Act requirements. The executive director said that in the past, he had relied on an architect for capital procurement projects; however, he stated that HUD had advised the Authority that an architect was not required to replace cabinets and countertops. HUD stated that it did not advise the executive director regarding the architect. Neither HUD nor the Authority provided documentation pertaining to discussions regarding hiring an architect.

The Authority Could Not Support Some of Its Expenses

The Authority could not support some of its expenses due to its substituting appliance purchases in 2012 for other planned and budgeted costs. In September 2010, HUD denied the Authority's LOCCS request to pay \$6,356 for inspection costs and salary costs for contract oversight due to budget issues. As a result, the Authority had unspent Recovery Act funds totaling \$14,145 in January 2012.

The executive director expressed his frustration with HUD and the Recovery Act requirements. He indicated that he wanted to return the remaining funds but at HUD's suggestion in 2012, the Authority revised its Recovery Act annual statement and purchased appliances for some of its units with all of the remaining funds. However, the obligations were not interchangeable. Further, an obligation occurs when an order is placed or goods or services are received. Because the \$14,145 in appliance purchases occurred after the March 17, 2010, obligation deadline, the Authority's expense was improper. Table 2 summarizes the amounts the Authority improperly expensed.

Table 2: Schedule of amounts improperly expensed

Budget category	Description	Budgeted amounts	Expenses rejected by HUD	Expense allowed by HUD	Improperly expensed
1410	Administration fees	\$11,405	\$3,145	\$8,260*	\$3,145
1430	Fees and cost (inspection fees)	11,000	3,211	0	11,000
Totals		\$22,405	\$6,356	\$8,260	\$14,145

* Cost overrun on cabinet and countertop replacement contract

If the Authority paid \$3,145 in administrative costs related to overseeing the Recovery Act grant and \$11,000 in eligible fees and costs, it can seek reimbursement for those costs, if it obligated such costs before the deadline. If the Authority cannot provide valid and eligible expenses, the amount should be repaid to HUD and returned to the U. S. Treasury.

The Authority's Reporting Was Missing or Late for Some Reporting Periods

The Authority missed the first reporting period ending September 30, 2009, in Recovery.gov, one reporting period in 2010, and one reporting period in 2011. In addition, the Recovery.gov reporting site improperly reflected the description of work as "finish carpentry contractors" instead of the actual project of cabinet and countertop replacement. The executive director stated that the reports were late because he had difficulty with the Recovery.gov system and had difficulty finding someone at the reporting system help desk that could assist him. The Authority's late and inaccurate reporting defeated the transparency goals of the Recovery Act.

Conclusion

The Authority had deficiencies in the administration of its Recovery Act grant. Although the Authority was successful in obtaining needed improvements to its housing units, it made errors in procuring its contracts and obligating, expending, and reporting funds. According to the Fort Worth Director of the Office Public

Housing, her office provided training and technical assistance to the Authority. Despite this, the Authority made errors because it was not familiar with or did not understand some Recovery Act requirements and it followed a suggestion made by HUD. As a result, the Authority spent \$6,400 that was not obligated or expensed in a timely manner and an additional \$7,745 that was not properly expensed.

Recommendations

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

- 1A. Repay \$6,400 in 2009 Recovery Act funds to HUD, which will return the funds to the U. S. Treasury.
- 1B. Repay \$7,745 in 2009 Recovery Act funds to HUD, which will return the funds to the U. S. Treasury, or provide eligible costs that it obligated and expensed before the deadlines.
- 1C. Improve its internal controls over procurement.
- 1D. Ensure that the Authority's staff obtains training in Capital Fund procurement and contract administration.

SCOPE AND METHODOLOGY

We conducted our audit work at the Authority's administrative office in Mineral Wells, TX, and at HUD's Office of Public Housing and the Office of Inspector General's office in Fort Worth, TX. We performed our audit work between January and April 2012. The audit generally covered the period March 18, 2009, to January 11, 2012. We limited our scope to the Recovery Act Capital Fund formula grant.

To accomplish our objectives, 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 the Authority's board of commissioners' resolutions.
- Reviewed the Authority's procurement procedures.
- Reviewed the Authority's audited financial statements for fiscal years 2009 and 2010.
- Reviewed the Authority's Recovery Act Capital Fund formula grant agreement, annual plan, and 5-year action plan.
- Reviewed the Authority's procurement records and environmental review.
- Traced obligations and project costs from procurement through LOCCS drawdown of funds for contracts procured with the Recovery Act formula grant funds to determine whether the Authority obligated and expensed amounts in a timely manner. We did not evaluate the reliability of the LOCCS data as we used it for information purposes only.
- Reviewed 100 percent of expenditures made to ensure that disbursements were adequately supported.
- Interviewed Authority staff to determine procurement, contract, accounts payable, and reporting procedures.
- Reviewed the Authority's Recovery Act reporting to determine whether its Recovery.gov reports were complete, accurate, and submitted in a timely manner.
- Conducted site visits of and photographed representative units reflecting the Authority's use of formula grant funds.
- Interviewed HUD Office of Public Housing staff in Fort Worth, TX.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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.

Significant Deficiency

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

- The Authority did not have a control system in place to ensure that its Recovery Act capital project was procured according to requirements (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>
1A	\$6,400
1B	<u>7,745</u>
Total	<u>\$14,145</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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

**MINERAL WELLS HOUSING AUTHORITY
P.O. BOX 177
MINERAL WELLS, TEXAS 76068**

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June 11, 2012

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U.S. Department of Housing and Urban Development
Region VI, Office of Inspector General
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Subject: The Housing Authority of the City of Mineral Wells, TX, Had Errors in the Administration of Its Recovery act Public Housing Capital Fund Grant

Dear Mr. Kirkland:

Comment 1

In response to the report, I relied on the guidance I received from the HUD Office of Public Housing in administering the recovery act Public Housing Capital Fund Grant program without errors. However, due to miscommunications between my office and HUD's, technical difficulties with the reporting sites (Federalreporting.gov and Ramps), and difficulty understanding the program requirements, errors were made.

As Executive Director of the Mineral Wells Housing Authority, I certify that all future Capital Fund programs will be properly administered. I have recently received procurement training and handbook documents from Gary kuusisto with the HUD's Office of Public Housing. I will await further instructions from the HUD's Office of Public Housing as to how I will proceed with returning the funds to the U.S. Treasury.

If you have any questions, please contact me at 940-325-3327.

Sincerely,

Harry Small, Jr.
Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed errors occurred, and stated it was working to correct errors in its future capital projects. The executive director also stated that he has received training. Further, the Authority was waiting for instructions as to how to return the money to Treasury. We acknowledge the Authority's statements and encourage it to work with HUD to seek final resolution of the recommendations.