



Issue Date	July 15, 2011
------------	---------------

Audit Report Number	2011-LA-0003
---------------------	--------------

TO: Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ

A handwritten signature in black ink that reads "Tanya E. Schulze".

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Office of Public Housing, San Francisco, CA, Monitored Recovery Act Grants Awarded to Region IX Public Housing Agency Grantees in Accordance With Applicable Requirements

## **HIGHLIGHTS**

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

We audited the monitoring practices that the San Francisco Office of Public Housing (SF OPH) used to monitor American Recovery and Reinvestment Act of 2009 supplemental capital formula and competitive grants awarded to public housing agencies in Region IX. The audit was conducted in accordance with a mandate to review the U.S. Department of Housing and Urban Development's (HUD) monitoring of Recovery Act funds to determine whether there were safeguards to ensure that grantees used funds for their intended purposes.

Our objective was to determine whether SF OPH (1) used HUD's risk assessment process to select Recovery Act grantees for monitoring, (2) monitored grantees' administration of the grant for compliance with Recovery Act requirements, and (3) monitored grantees to ensure timely obligation and expenditure of Recovery Act funding.

## **What We Found**

SF OPH in Region IX complied with HUD policies for monitoring Recovery Act grantees selected through the risk assessment process. It also monitored grantees' administration of the grant for compliance with Recovery Act requirements and provided increased transparency and adequate monitoring of Recovery Act expenditures. Therefore, our review of SF OPH's monitoring for the grants tested did not identify any deficiencies.

## **What We Recommend**

This report does not contain recommendations and, therefore, requires no further action.

## **Auditee's Response**

We provided HUD the draft report on July 11, 2011 and informally discussed the report with the Director of SF OPH on July 12, 2011 in place of an exit conference. HUD did not provide formal written comments because the report contained no recommendations and agreed with our conclusion in the report.

## TABLE OF CONTENTS

---

Background and Objective	4
Results of Audit	
SF OPH Adequately Monitored Its Recovery Act Grant Awards to Public Housing Agencies in Accordance With Applicable Regulations and Requirements	5
Scope and Methodology	7
Internal Controls	9

## BACKGROUND AND OBJECTIVE

---

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. Division A, Title XII, of the Recovery Act (PL 111-5) appropriated \$4 billion for the Public Housing Capital Fund program to carry out activities of public housing agencies as authorized under Section 9 of the United States Housing Act of 1937. The Recovery Act required that \$3 billion of these funds be distributed as Public Housing Capital Fund formula grants and the remainder be distributed through a competitive grant process. For both grant types, the Recovery Act required the grantee or 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 the availability date.

The Office of Capital Improvements administers the Capital Fund program, which provides funds annually via a formula to approximately 3,200 public housing agencies across the country. The Office provides technical assistance to agencies and U.S. Department of Housing and Urban Development (HUD) field offices relating to development, financing, modernization, and management improvements of public housing developments. It prepares quarterly reports to Congress on the status of the obligation and expenditure of Capital Fund grants and implements the statutory sanctions for agencies that do not comply with the statutory deadlines.

As of March 17, 2011, 37 public housing agencies had received more than \$74 million in Recovery Act Capital Fund formula grants in the San Francisco Office of Public Housing's (SF OPH) jurisdiction. In addition, eight of these agencies had applied for and received 14 Recovery Act Capital Fund competitive grants totaling more than \$43 million.

Recovery Act awards	All regions	All regions	Region IX	Region IX
Grant type	Formula	Competitive	Formula	Competitive
No. of grants	3,121	393	37	14
No. of agencies	3,121	209	37	8
Amount authorized	\$ 2,985,000,000	\$ 995,000,000	\$ 74,177,184	\$ 43,778,276

We reviewed 4 of the 37 formula grants and 2 of the 14 competitive grants that SF OPH monitored. The review encompassed 39 percent (\$28.6 million) of the formula grant awards funded and 26 percent (\$11.2 million) of the competitive grant awards funded.

### Objective

Our overall objective was to determine whether SF OPH (1) used HUD's risk assessment process to select Recovery Act grantees for monitoring, (2) monitored these grantees' administration of the grants for compliance with Recovery Act requirements, and (3) provided increased transparency and adequate monitoring of expenditures.

## RESULTS OF AUDIT

---

### SF OPH Adequately Monitored Its Recovery Act Grant Awards to Public Housing Agencies in Accordance With Applicable Regulations and Requirements

SF OPH adequately monitored grantees' administration of the Recovery Act Capital Fund grants and the expenditures of formula and competitive Recovery Act grant funds that were awarded to Region IX grantees. Therefore, it complied with applicable regulations, checklists, and policies established by HUD. Further, SF OPH monitored 100 percent of its troubled public housing agencies' Recovery Act (formula and competitive) grant obligations to ensure that all funds were obligated by the required deadlines.

---

#### Grantee Monitoring

SF OPH conducted remote reviews of all 37 (100 percent) of its Recovery Act formula and competitive grantees. It also conducted onsite monitoring of selected Recovery Act formula and competitive grantees. The reviews were conducted in accordance with the Recovery Act (PL 111-5) and applicable HUD monitoring strategies. In addition, SF OPH used the appropriate HUD headquarters guidance, policies, and checklists in executing its monitoring of public housing agencies. Lastly, SF OPH ensured continuous monitoring and quality control by assisting HUD in executing field office quick-look reviews and quality control, quality assurance reviews.

SF OPH posted monitoring results using Microsoft SharePoint 2007, together with Microsoft InfoPath, which was designed for distributing and filling electronic forms. HUD adopted this technology to increase information sharing and communication and adapted it to provide increased transparency in Recovery Act obligations, expenditures, and monitoring. Monitoring reports were properly issued to agencies after reviews were completed and deficiencies were satisfactorily addressed.

All transmittals to the Office of Public and Indian Housing in Washington, DC, were properly supported and documented, and SF OPH followed up on outstanding issues and promoted transparency and accountability as required by the Recovery Act.

## **Funds Obligated**

SF OPH monitored its public housing agencies' Recovery Act (formula and competitive) grant obligations to ensure that all funds were obligated by the required deadlines. For nontroubled agencies, SF OPH reviewed 25 percent of agency obligations. For troubled agencies, it reviewed 100 percent of agency obligations. This process included a determination of the validity of the obligation, and no exceptions were noted. In addition, SF OPH continued monitoring its grantees to ensure that grants were properly administered according to the Recovery Act. It paid particular attention to agencies that were identified as troubled and high risk.

## **Funds Expended**

SF OPH monitored each grantee to ensure that it would expend at least 60 percent of its competitive grants by the dates established by the Recovery Act. For nontroubled public housing agencies, SF OPH reviewed 25 percent of agency expenditures. For troubled agencies, it reviewed 100 percent of agency obligations in keeping with the need to monitor troubled agencies more closely. Again, SF OPH continued monitoring its grantees to ensure that grants were properly administered according to the Recovery Act. It paid particular attention to agencies that were identified as troubled and high risk.

## **Conclusion**

SF OPH complied with HUD monitoring directives and administered its Recovery Act grants in accordance with Recovery Act requirements. Generally, it implemented systems for tracking, accounting for, and monitoring selected grantee administration of the Recovery Act grants according to HUD policies. For the grants reviewed, SF OPH adequately and sufficiently monitored the Recovery Act funds that were awarded to and expended by its grantees, provided increased transparency by posting the results of the monitoring, and ensured continual monitoring. Our review did not identify any deficiencies.

## **Recommendations**

Based on the results of this audit, the audit report contains no recommendations, and no further action is necessary with respect to our report.

## SCOPE AND METHODOLOGY

As part of our annual plan, our overall objective was to determine whether SF OPH monitored grantees for compliance with Recovery Act requirements and provided adequate monitoring of expenditures. Audit work was performed at the SF OPH office and remotely when electronic records were available. The review did not evaluate the risk assessment process established and implemented by HUD because it was outside the scope of this review. Our audit covered the period January 2009 through March 2011 and was extended when necessary to meet our objective.

To accomplish our audit objective, we

- Interviewed SF OPH management and staff regarding monitoring procedures;
- Reviewed instructions and policies developed by HUD;
- Reviewed applicable laws, regulations, guidance, and notices;
- Reviewed and evaluated documentation available in the InfoPath SharePoint System to determine whether the system was reliable and the data within it were secure and provided SF OPH with an accurate, efficient, complete, and transparent method of monitoring Recovery Act funds;
- Reviewed grant amounts awarded to the region’s housing authorities and judgmentally selected six for review. Four of the six were formula grants, and the remaining two were competitive grants. The review encompassed 39 percent of the formula grant awards funded and 26 percent of the competitive grant awards funded. The grant amounts were as follows:

Agency	Grant number	Authorized amount as of 03/17/2011	Cumulative obligation as of 03/17/2011	Cumulative expenditure as of 03/17/2011
<b>Formula grants</b>				
San Francisco Housing Authority	CA39S00150109	\$ 17,876,716	\$ 17,876,716	\$ 12,027,297
Housing Authority of the City of Las Vegas	NV39S00250109	6,662,134	6,662,134	6,583,193
County of Contra Costa Housing Authority	CA39S01150109	2,877,246	2,877,246	2,877,246
Housing Authority of the County of Yolo	CA30S04450109	1,267,022	1,267,022	1,246,147
<b>Subtotal formula sample</b>		<b>\$ 28,683,118</b>	<b>\$ 28,683,118</b>	<b>\$ 22,733,833</b>
<b>Competitive grants</b>				
City of Sacramento Housing Authority	CA00500010609T	10,000,000	10,000,000	385,960
Housing Authority of the County of Marin	CA05200000209E	1,235,000	1,235,000	43,928
<b>Subtotal competitive sample</b>		<b>\$ 11,235,000</b>	<b>\$ 11,235,000</b>	<b>\$ 429,888</b>
<b>Total sample</b>		<b>\$ 39,918,118</b>	<b>\$ 39,918,118</b>	<b>\$ 23,163,721</b>

- For those grants selected, obtained checklists and initiation, environmental compliance, procurement, and grant administration documents, including information that would aid the auditors in ensuring that the grant reviews were transparent, accurate, and timely.

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 reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise plans, 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:

- Controls over Recovery Act program management.
- Controls over compliance with Recovery Act monitoring policies and regulations.
- Controls over Recovery Act information systems.

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. No weaknesses were identified relative to the controls identified above. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of SF OPH's internal control.