



**Aurora, IL Housing Authority's
American Recovery and Reinvestment Act Public
Housing Capital Fund Grant**



Issue Date: September 5, 2012

Audit Report Number: 2012-CH-1010

TO: Steven Meiss, Director of Public Housing Hub, 5APH

//signed//

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

SUBJECT: The Aurora Housing Authority, Aurora, IL, Did Not Administer Its Grant in Accordance With Recovery Act, HUD, and Its Own Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final audit report of our review of the Aurora Housing Authority's American Recovery and Reinvestment Act Public Housing Capital Fund stimulus formula grant.

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

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 913-8684.



September 5, 2012

The Aurora Housing Authority, Aurora, IL,
Did Not Administer Its Grant in Accordance
With Recovery Act, HUD's, and Its Own
Requirements

Highlights

Audit Report 2012-CH-1010

What We Audited and Why

We audited the Authority's Recovery Act formula grant. The audit was part of the activities in our fiscal year 2012 annual audit plan. We selected the Authority based upon our analysis of risk factors related to the housing agencies in Region V's¹ jurisdiction. Our objective was to determine whether the Authority administered its grant in accordance with Recovery Act, HUD's, and its own requirements.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to (1) reimburse HUD \$2,400 from non-Federal funds for transmission to the U.S. Treasury, (2) support or reimburse HUD more than \$343,000 from non-Federal funds for transmission to the U.S. Treasury, (3) pursue collection from the contractor or reimburse the contractor's employees more than \$900 from non-Federal funds, (4) ensure that its staff is trained on and familiar with Federal procurement requirements, and (5) implement adequate procedures and controls to address the findings cited in this audit report.

What We Found

The Authority did not administer its grant in accordance with Recovery Act, HUD's, and its own requirements. While the Authority generally obligated and expended its Recovery Act funds in accordance with Recovery Act rules and regulations, it did not ensure that its contractors (1) purchased products manufactured in the United States in accordance with the Buy American Act or that met Energy Star standards and (2) paid prevailing wages in accordance with the Davis-Bacon Act. Further, the Authority did not (1) follow Federal and its own procurement requirements, (2) document that work was complete before payments were made, and (3) correctly report the progress of its Recovery Act grant activities.

As a result of the Authority's noncompliance, HUD and the Authority lacked assurance that more than \$346,000 in Recovery Act grant funds was used appropriately. Additionally, the public did not have access to accurate information regarding the number of jobs created and retained with formula grant funds, and the Authority's use of formula grant funds was not transparent.

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated September 5, 2012.

¹ Region V includes the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

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BACKGROUND AND OBJECTIVES

The Aurora Housing Authority was established under the laws of the State of Illinois to provide decent, safe, and sanitary housing in a suitable environment for families of low income, at rent rates they can afford to pay. The Authority operates under the direction of a seven-member board of commissioners. The mayor of Aurora appoints the commissioners to serve 5-year staggered terms. The board's responsibilities include appointing the executive director, developing policy, and approving and monitoring budgets. The executive director is responsible for directing the operations of the Authority's programs and ensuring that policies are followed.

The Public Housing Capital Fund Stimulus (formula) Recovery Act funded grant is administered by the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing. The grant funds are available for capital and management activities, including the development, financing, and modernization of public housing projects.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act. The Recovery Act provided an additional \$4 billion to public housing agencies to carry out capital and management activities, including the modernization and development of public housing. It required that \$3 billion of these funds be distributed as formula grants and the remaining \$1 billion be distributed through a competitive process. In March 2009, the Authority received a formula grant of more than \$1.4 million. According to HUD requirements, the Authority was required to obligate 100 percent of its grant funds within 1 year, expend 60 percent of the funds within 2 years, and fully expend the funds within 3 years. As of March 2010, the Authority had obligated all of its grant funds and the funds were fully expended as of December 2010.

Our objective was to determine whether the Authority effectively administered its grant in accordance with Recovery Act, HUD's, and its own requirements. Specifically, we wanted to determine whether the Authority (1) properly obligated and expended its Recovery Act grant funds, (2) followed Recovery Act requirements when procuring contracts for goods and services, and (3) accurately reported its Recovery Act activities.

RESULTS OF AUDIT

Finding: The Authority Did Not Follow Recovery Act, HUD's, or Its Own Requirements

The Authority did not follow Recovery Act, HUD's, or its own requirements. Specifically, it did not ensure that its contractors (1) complied with Buy American Act and Energy Star standards and (2) appropriately paid their employees prevailing wages in accordance with the Davis-Bacon Act. The Authority also did not ensure that work was complete before payments were made and accurately report the progress of its Recovery Act grant activities. These weaknesses occurred because the Authority did not adequately monitor its contractor to ensure compliance with Federal requirements. Additionally, the Authority lacked a complete understanding of Federal, Recovery Act, and Davis-Bacon requirements. As a result of the Authority's noncompliance, HUD and the Authority lacked assurance that more than \$346,000 in Recovery Act grant funds was used appropriately. Additionally, the public did not have access to accurate information regarding the number of jobs created and retained with formula grant funds, and the Authority's use of formula grant funds was not transparent.

The Authority Did Not Ensure That Its Contractor Purchased American-Made Products

The Authority's Recovery Act contractor certified that all materials, components, and manufactured goods used for the project were made in the United States. However, the Authority did not obtain documentation to support whether the materials purchased by the contractor were manufactured in the United States in accordance with the Buy American Act.²

We reviewed the materials purchased by the contractor. The Authority's contractor purchased \$2,400 in roofing products manufactured in Canada. In addition, the Authority was unable to provide documentation identifying the location of manufacture for \$117,419 of the products purchased as part of the Recovery Act grant contract. According to the Authority's contract specialist, he researched American-made products before issuing the request for bids. The bid specifications included a list of materials and products manufactured in the United States. However, the Authority did not require the contractor to submit supporting documentation to ensure compliance with the Buy American Act requirements.

² Recovery Act, Section 1605 – Buy American

The Authority Did Not Follow Federal Energy Efficiency Requirements

We reviewed the material invoices from the Authority's contractor to determine whether the products purchased met the minimum Federal energy efficiency requirements.³ The contractor purchased \$129,154 in windows and \$64,008 in shingles that were subject to but did not meet Energy Star standards. According to HUD's requirements, the Authority should purchase Energy Star-labeled products unless a cost analysis finds that the proposed purchase would not be cost effective. The Authority did not complete a cost analysis to determine whether its contractor's purchases were cost effective.

The Authority's development director said he was not aware of HUD's energy efficiency requirements. However, the Authority's procurement policy, updated on January 27, 2010, stated that all specifications would be written to include energy-efficient products and appliances with an Energy Star or Federal Energy Management Program rating.

The Davis-Bacon Act Was Not Followed

The Authority did not adequately administer the Davis-Bacon requirements for its Recovery Act grant project. According to regulations, the Davis-Bacon Act applies to all construction contracts greater than \$2,000. The Authority executed one Recovery Act construction contract in excess of \$2,000. It did not obtain sufficient documentation from the contractor to determine whether its employees were paid prevailing wage rates in accordance with the Davis-Bacon Act.⁴

We reviewed the Authority's payroll reports and records of employee interviews for the Recovery Act contract. It was unable to provide payroll reports or pay stubs to support \$32,857 in wages paid to its contractor and payroll reports for 5 of the 11 employees interviewed.

From the 217 payroll reports provided, 36 were incomplete. Further, the Authority did not obtain copies of pay stubs to ensure that the contractor's employees received prevailing wages as certified in the payroll reports provided. Based on our review of the payroll reports, eight employees were underpaid by \$919 from the number of hours certified on the payroll reports. For two employees, the contractor certified on the payroll reports that they worked 29.5 hours during the week at the prevailing wage rates. However, according to the employees' pay stubs, they were paid the appropriate prevailing wages for 28 hours and received wages that were less than the prevailing wage rates for the

³ 24 CFR (Code of Federal Regulations) 965.306 and the Authority's procurement policy, section XI(C)

⁴ Recovery Act, Section 1606 - Wages

remaining 1.5 hours. The remaining six employees did not receive overtime wages for the number of hours that were certified on the payroll reports.

The Authority Did Not Follow Procurement Requirements

The Authority executed two Recovery Act grant contracts. However, it did not follow HUD's procurement requirements⁵ for one of the contracts. The Authority did not advertise a request for qualifications for architectural services in newspapers or other print mediums, trade journals or publications, or e-procurement systems as required by HUD.⁶ Instead, it directly solicited responses from eight firms.

The Authority's development director states that noncompetitive procedures were used for the contract because of obligation constraints for the Recovery Act funds. The proposals were due on October 22, 2009, and the Authority directly solicited the architectural firms on September 2, 2009. Therefore, it had sufficient time between September 2 and October 22, 2009, to advertise the request for a minimum of 2 consecutive weeks in accordance with HUD's requirements.⁷

The Authority Failed To Adequately Provide Inspection Reports of Contracted Work

We reviewed the inspection reports for the Authority's Recovery Act program⁸ grant construction contract to determine whether it ensured that work was complete before issuing payments.⁹ We reviewed the inspections completed by the Authority's staff, its architectural and engineering firm, and the City of Aurora. For the 482 work items included in the contractor's schedule of payments, the Authority provided support that 164 work items were inspected. Of the 164 items inspected, 100 were inspected after the payments were made. During the audit, we inspected the project to determine whether the work was complete. The work items included in the construction contract were completed. However, the Authority failed to adequately document the completion of work items before making the payments.

⁵ 24 CFR 85.36(c)(1) and HUD Handbook 7460.8, REV-2, paragraph 7.1(F)

⁶ 24 CFR 85.36(d)(3)(i) and HUD Handbook 7460.8, REV-2, paragraph 7.1(G)

⁷ HUD Handbook 7460.8, REV-2, paragraph 7.1(G)

⁸ 24 CFR 5.5(a)(3)(ii)(A)

⁹ Office of Public and Indian Housing (PIH) Notice 2009-12, section 7

The Authority Did Not Accurately Report Recovery Act Grant Activities

The Authority submitted Recovery Act program grant progress reports in a timely manner. However, it did not correctly report the number of jobs created and retained or the amount of vendor payments. The Authority reported the number of jobs created by the Recovery Act program¹⁰ grant projects but did not include the number of jobs retained. As a result, the number of jobs was underreported by two jobs on three reports and overreported by two jobs on one report.

Further, the Authority incorrectly reported its vendor payments as subawards. Therefore, the amount of vendor payments was incorrectly reported on each quarterly report. However, the total funds received and expended were correct.

The Authority Lacked Knowledge of Recovery Act and Federal Requirements

The Authority lacked a complete understanding of applicable requirements. For instance, according to the Authority's development director, he was not aware of HUD's energy efficiency requirements. However, the Authority's procurement policy, updated on January 27, 2010, stated that all specifications would be written to include energy-efficiency products and appliances with an Energy Star or Federal Energy Management Program rating. Further, the Authority did not provide adequate oversight of its contractors. It relied on its contractors to ensure compliance with Federal and Recovery Act requirements instead of overseeing the implementation of its procured Recovery Act contracts.

Conclusion

The Authority failed to ensure that its contractors purchased products manufactured in the United States and that met Federal energy efficiency requirements and paid prevailing wages in accordance with the Davis-Bacon Act. The Authority did not follow HUD's procurement requirements and its own policies, ensure that work was complete before payments were made, or correctly report the progress of its Recovery Act grant activities. As a result, the Authority's contractor purchased \$2,400 in products manufactured outside the United States and was unable to provide support for the location of manufacture for \$117,419 in products.

¹⁰ Office of Management and Budget Memorandum M-10-08, part 2

Further, the Authority did not complete a cost analysis to support the purchase of \$193,162 (\$129,154 + \$64,008) in products that did not meet Energy Star standards. It also was unable to provide support for \$32,857 in wages paid, and its contractor underpaid \$919 in wages to eight of its employees. HUD and the Authority lacked assurance that the architectural contract was procured in accordance with HUD's requirements and Recovery Act construction work was completed before payments were made, the public had access to accurate information regarding the number of jobs created and retained with formula grant funds, and the Authority use of formula grant funds was transparent.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to

- 1A. Reimburse HUD \$2,400 from non-Federal funds for transmission to the U.S. Treasury for the Recovery Act program grant funds used to purchase products contrary to the Buy American Act.
- 1B. Provide support or reimburse HUD \$117,419 from non-Federal funds for transmission to the U.S. Treasury for the products purchased with Recovery Act grant funds with unsupported locations of manufacture.
- 1C. Provide a cost analysis to support the purchase of windows and shingles that did not meet Energy Star standards as being cost effective or reimburse HUD \$193,162 from non-Federal funds for transmission to the U.S. Treasury.
- 1D. Pursue collections from the contractor and provide support of corrective payments made to its employees or reimburse the contractor's employees \$919 from non-Federal funds.
- 1E. Provide support or reimburse HUD \$32,857 from non-Federal funds for transmission to the U.S. Treasury for the unsupported wages paid by Recovery Act grant contractors.
- 1F. Ensure that all applicable staff is trained and familiar with Federal procurement requirements.
- 1G. Develop and implement procedures to ensure that contracts are procured in accordance with HUD's requirements, contractors follow Federal requirements, and inspections are performed to ensure that work is complete before payments are made.

- 1H. Review all grant information reported on the FederalReporting.gov Web site, provide HUD with a summary of any discrepancies, and maintain corrected documentation on file.
- 1I. Develop and implement procedures and controls to ensure the accuracy, completeness, and timeliness of all reports submitted to HUD or other Federal agencies for the Authority's programs.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws and regulations; the Recovery Act; the Energy Policy Act of 2005; Office of Management and Budget memorandums; 2 CFR (Code of Federal Regulations) Part 225; HUD's program requirements at 24 CFR Parts 85, 135, 905, 964, 965, and 990; 29 CFR Part 5; HUD's Office of Public and Indian Housing notices; HUD Handbook 7460.8, REV-2; HUD Guidebook 7510.1; and HUD's Recovery Act reporting guidance.
- The Authority's accounting records and bank statements; annual audited financial statements for fiscal years 2007, 2008, 2009, and 2010; contract files; policies and procedures; board meeting minutes for March 2009 through January 2012; organizational chart; program annual contributions contract with HUD; and 5-year and annual plans.
- Contractor's invoices and payroll reports.
- HUD's files for the Authority.

We also interviewed the Authority's employees and HUD's staff.

We reviewed the Authority's Recovery Act program contract files. The Authority executed two contracts as part of its Recovery Act grant activities. The two contracts included an architectural and engineering contract and a construction contract. We reviewed the material invoices for the construction contract to determine the product manufacturers. We performed Internet searches and contacted the companies to determine the country of manufacture for their products. We also compared the energy ratings for the products purchased with the minimum energy efficiency standards.

We reviewed the payroll reports and employee interviews obtained by the Authority for the construction contract to determine whether the Authority ensured that its contractors paid prevailing wages in accordance with the Davis-Bacon Act. We compared the payroll reports to the pay stubs provided by the contractor to determine the amounts paid to the employees. We compared the wages paid to the employees with the applicable prevailing wages.

We reviewed the inspections completed by the Authority, its architectural firm, and the City of Aurora in their entirety. We compared the inspections to the contract activities reported on the contractor's schedule of payments to determine whether the Authority conducted the inspections before issuing payments.

We reviewed the Authority's Recovery Act program contract files in their entirety to determine whether the Authority procured and executed the contracts in accordance with HUD's requirements and its policies and procedures. We also reviewed the Recovery Act grant progress

reported by the Authority through FederalReporting.gov to determine whether the Authority accurately reported the (1) amount of funds obligated and expended, (2) jobs created and retained, and (3) vendor payments.

We relied in part on data maintained by the Authority in its systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

We performed our onsite audit work from March to April 2012 at the Authority's offices located at 1630 West Plum Street, Aurora, IL. The audit covered the period March 1, 2009, through January 31, 2012, but was expanded as determined necessary.

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

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 – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with 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 Deficiencies

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

- The Authority lacked adequate procedures and controls to ensure that (1) its contractors purchased products that were manufactured in the United States in accordance with the Buy American Act and met Federal energy efficiency standards and paid prevailing wages in accordance with the Davis-Bacon Act, (2) inspections were performed and documented before payments were issued, (3) procurements were conducted in accordance with HUD's requirements and the Authority's policies and procedures, and (4) it accurately reported appropriate information in FederalReporting.gov (see finding).

Separate Communication of Minor Deficiencies

We informed the Authority's executive director and the Director of HUD's Chicago office of Public Housing of minor deficiencies through a memorandum, dated August XX, 2012.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
A	<u>\$2,400</u>		
B		\$117,419	
C		193,162	
D			<u>\$919</u>
E		<u>32,857</u>	
Total	<u>\$2,400</u>	<u>\$343,438</u>	<u>\$919</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 Office of Inspector General (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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Office of the Inspector General Audit Responses

The following contains findings and responses to a draft audit report of the Aurora Housing Authority's, Public and Indian Housing Capital Fund Stimulus (formula) grant performed by the Office of the Inspector General for Audit – Region V:

AUDIT FINDING: The AHA did not ensure that the Contractor purchased American-Made Products:

The Authority's Recovery Act Contractor certified that all materials, components, and manufactured goods used for the project were made in the United States. However, the Authority did not obtain documentation to support whether the materials purchased by the contractor were manufactured in the United States in accordance with the Buy American Act requirements.

We reviewed the materials purchased by the contractor. The Authority's contractor purchased \$2,400 in roofing products manufactured in Canada.

In addition, the Authority was unable to provide invoiced documentation identifying the location of manufacture for \$117,419 of the products purchased as part of the Recovery Act grant contract. According to the Authority's contract specialist, he researched American-made products before issuing the request for bids. The bid specifications included a list of materials and products manufactured in the United States. However, the Authority did not require the contractor to submit supporting documentation to ensure compliance with the Buy American Act requirements.

AHA RESPONSE:

Comment 1

The \$2,400 in roofing products manufactured in Canada is IKO Stormsheild Roofing Underlayment used in the valley areas of each roof. This product was necessary to facilitate the proper installation of the roofing material. The IKO Stormsheild used was recommended by the roofing shingle manufacturer as a second line of defense for water on all gutter eaves and valley ways on the roof. The IKO Stormsheild was used to maintain warranty on the Tamko Shingles that were installed. Tamko does not have a distribution for Ice and Water in the Chicago land market. The underlayment was not part of the original job specifications and it was necessary to expedite the purchase of the underlayment in order to prevent a work stoppage by the roofing contractor.

Comment 2

The AHA requested information from the Contractor for the \$117,419 worth of items in question, to support the fact that all materials, components, and manufactured goods used for the project were made in the United States. The Contractor did provide the requested documentation to the AHA which confirms that the products were manufactured in the United States. This information was subsequently provided to the IG Office by e-mail but was not provided in time to be included in the draft report. Copies of all supporting documentation are attached in Section A.

Ref to OIG Evaluation

Auditee Comments

Comment 3

FINDING: The Authority did not follow Federal Energy Requirements.

We reviewed the material invoices from the Authority's contractor to determine whether the products purchased met the minimum Federal energy efficiency requirements. The Contractor purchased \$129,154 in windows and \$64,008 in shingles that were subject to but did not meet Energy Star standards. According to HUD's requirements, the Authority should purchase Energy Star-labeled products unless cost-analysis finds that the proposed purchase would not be cost effective. The Authority did not complete a cost analysis to determine whether its contractor's purchases were cost effective.

AHA RESPONSE:

The AHA used a Pella double glazed, 11/16" Advanced Low E IG with argon/2.5mm glass, double hung fiberglass window frame with a U-Factor of 0.32 and an SHGA (Solar Heat-Gain Coefficient) rating of 0.28. The U-Factor of 0.32 met Energy Star-labeled requirements for 2010.

In Northern Climates Zones, SHGC is less important than a window's U-factor. In situations where air-conditioning costs during warm weather months can become high, windows with an SHGC of less than 0.30 are beneficial since they allow less heat gain. The lower the SHGA number, the less heat gain allowed through the window.

Air-conditioning costs during warm months are a prime concern of our residents. The AHA selected this double glazed, double hung fiberglass window frame with an SHGA rating of 0.28 as it allows less heat gain during the warm weather months.

According to current energy standards, a similar Pella window has received a 2012 Energy Star-labeled rating with a U-Factor of 0.29 and an SHGA rating of 0.28. Energy Star ratings have recognized that a lower SHGA rating is preferable for the Northern Climate Zone.

The AHA selected a conventional double-layer fiberglass mat weathering-grade asphalt shingle for the following reasons:

Comment 4

1. The Energy Star rated shingles cost approximately \$128.00 per square versus \$69.00 per square for conventional double-layer fiberglass mat weathering-grade asphalt shingles. This represents a 46% increase in cost for Energy Star-labeled shingles over the shingles purchased.
2. In order to maximized energy savings while minimizing costs, the AHA chose to install more insulation in the ceilings of the buildings. The added insulation increased the rating to a value of R-38. The AHA also installed additional roof vents, including a ridge roof vent, to minimize attic heat gain during warm weather months and reduce heat loss during cold weather months due to temperature variances.
3. In 2009 when the rehabilitation was being done, there were few colors available in the Energy Star-labeled shingle. It was our goal to have a final product that fit into the surrounding community norms. The color of shingles used (TAMKO Heritage 30AR

Ref to OIG Evaluation

Auditee Comments

Color Aged Wood) blended well with the siding material colors used for the buildings and also fit in well with the surrounding neighborhood

Copies of all supporting documentation are attached in Section B.

FINDING: The Davis Bacon Act Was Not Followed

The Authority did not adequately administer the Davis-Bacon requirements for its Recovery Act grant project. According to regulations, the Davis-Bacon Act applies to all construction contracts greater than \$2,000. The Authority executed one Recovery Act construction contract in excess of \$2,000. It did not obtain sufficient documentation from the contractor to determine whether its employees were paid prevailing wage rates in accordance with the Davis-Bacon Act.

We reviewed the Authority's payroll reports and records of employee interviews for the Recovery Act contract. It was unable to provide payroll reports or pay stubs to support \$32,857.00 in wages paid to its contractor and payroll reports for 5 of the 11 employees interviewed.

From the 217 payroll reports provided, 36 were incomplete. Further, the Authority did not obtain copies of pay stubs to ensure that the contractor's employees received prevailing wages as certified in the payroll reports provided.

Based on our review of the payroll reports, eight employees were underpaid by \$919.00 from the number of hours certified on the payroll reports.

For two employees, the contractor certified on the payroll reports that they worked 29.5 hours during the week at the prevailing wage rates. However, according to the employees' pay stubs, they were paid the appropriate prevailing wages for 28 hours and received wages that were less than the prevailing wage rates for the remaining 1.5 hours. The remaining six employees did not receive overtime wages for the number of hours that were certified on the payroll reports.

AHA RESPONSE:

The AHA requested documentation from the Contractor to confirm compliance with the Davis-Bacon Act. The Contractor provided supporting documentation for the majority of the payroll records. However, due to continued depressed economic conditions, the Contractor was unable to obtain all of the requested records. Since the project was completed in 2010, several sub-contractors have closed their businesses, filed bankruptcy and cannot be reached.

The Contractor has agreed to reimburse the eight employees \$919.00. Supporting documentation will be provided when it is received.

Copies of all supporting documentation provided by the Contractor are attached in Section C.

Comment 5

Ref to OIG Evaluation

Auditee Comments

Comment 6

FINDING: The Authority did not follow Procurement Requirements

The Authority executed two Recovery Act grant contracts. However, it did not follow HUD's procurement requirements for one of the contracts.

The Authority did not advertise a request for qualifications for architectural services in newspapers or other print mediums, trade journals or publications, or e- procurement systems as required by HUD. Instead, it directly solicited responses from eight firms.

The Authority's development director states that noncompetitive procedures were used for the contract because of obligation constraints for the Recovery Act funds. The proposals were due on October 22, 2009, and the Authority directly solicited the architectural firms on September 2, 2009. Therefore, it had sufficient time between September 2 and October 22, 2009, to advertise the request for a minimum of 2 consecutive weeks in accordance with HUD's requirements.

AHA RESPONSE:

The AHA did use a competitive process for the selection of an architectural firm. However, in an effort to assure that all funds on this project were obligated in a timely manner, the AHA did not advertise but instead directly solicited proposals from eight qualified professional A&E firms in the area that had previously replied to other AHA Requests for Proposals (RFP). Six of the firms submitted proposals.

The AHA had several meetings with contacted A&E firms before proposals were submitted to familiarize them with the scope of planned work and the importance of specifying a finished product similar to private developments in the area, not similar to the existing site.

The same requirements and evaluation criteria that would have been placed in an RFP for A&E Services, was provided and required from the eight solicited firms. This assured that the procurement activity was conducted in a manner providing full and open competition consistent with the standards of § 85.36.

The firms that submitted proposals had to meet all qualifications required in a normal RFP for A&E Services and were evaluated consistent with AHA procurement standards. The AHA used the contract negotiation process to select the most highly qualified professional respondent at a fair and reasonable price that was most advantageous to the AHA based on evaluation criteria, qualifications, previous work history, price and other considerations detailed in the RFP.

FINDING: The AHA failed to adequately provide inspection reports of contracted work:

We reviewed the inspection reports for the Authority's Recovery Act program grant construction contract to determine whether it ensured that work was complete before issuing payments. We reviewed the inspections completed by the Authority's staff, its architectural and engineering firm, and the City of Aurora. For the 482 work items included in the contractor's schedule of

Ref to OIG Evaluation

Auditee Comments

Comment 7

payments, the Authority provided support that 164 work items were inspected. Of the 164 items inspected, 100 were inspected after the payments were made.

During the audit, we inspected the project to determine whether the work was complete. The work items included in the construction contract were completed. However, the Authority failed to adequately document the completion of work items before making the payments.

AHA RESPONSE:

Payments are never made for work on any project until it is inspected, completed and accepted by the AHA.

The payout inspection process consists of the following steps:

1. Rough inspection by the City of Aurora;
2. Finish inspection by the City of Aurora;
3. Punch list and completion inspection by the AHA A&E firm and AHA staff; and
4. Completion inspection by AHA staff

The AHA employs a part-time Accounts Payable Clerk. Due to scheduling issues, the contract specialist may request that a check be processed in anticipation of a project completion date. In some instances, the date on the check may be prior to the actual inspection/approval date. However, checks are never released to a contractor until the project has been fully inspected and approved.

Again due to scheduling issues, a contractor may be paid prior to receiving a final sign off from the City of Aurora. However, the work must be inspected and accepted by the AHA and A&E before payment is released.

FINDING: The Authority did not Accurately Report Recovery Grant Activities:

The Authority submitted Recovery Act program grant progress reports in a timely manner. However, it did not correctly report the number of jobs created and retained or the amount of vendor payments.

The Authority reported the number of jobs created by the Recovery Act program grant projects but did not include the number of jobs retained. As a result, the number of jobs was underreported by two jobs on three reports and over reported by two jobs on one report.

Further, the Authority incorrectly reported its vendor payments as subawards. Therefore, the amount of vendor payments was incorrectly reported on each quarterly report. However, the total funds received and expended were correct.

Ref to OIG Evaluation**Auditee Comments****Comment 8****AHA RESPONSE:**

The AHA acknowledges the errors as reported. The Recovery Act program grant had a complex set of new regulations and the errors in reporting information were unintentional. It was unclear to the AHA as to how the number of jobs retained was to be classified on the reports. Once the errors were identified, there was no mechanism in place in the reporting system to correct the data.

FINDING: The Authority Lacked Knowledge of Recovery Act and Federal Requirements

The Authority lacked a complete understanding of applicable requirements. For instance, according to the AHA's development director, he was not aware of HUD's energy efficiency requirements. However, the Authority's procurement policy, updated on January 27, 2010, stated that all specifications would be written to include energy-efficiency products and appliances with an Energy Star or Federal Energy Management Program rating.

Further, the Authority did not provide adequate oversight of its contractors. It relied on its contractors to ensure compliance with Federal and Recovery Act requirements instead of overseeing the implementation of its procured Recovery Act contracts.

AHA RESPONSE:

The AHA procured all products purchased by the AHA with the Recovery Act funds per the regulations in 24 CFR 965.306 and PIH 2009-9 which states that "when purchasing original or, when needed, replacement equipment, PHAs shall acquire only equipment that meets or exceed the minimum energy requirements established by the U.S. Department of Energy (DOE). In the operation of their facilities, PHAs shall follow operating practices directed to maximize energy conservation. This notice encourages increasing the standard to that of purchasing ENERGY STAR PRODCUTS."

All of the products used met or exceeded minimum energy requirements of the DOE. The AHA maximized energy conservation in every instance when cost savings were warranted.

The Auditors provided valuable insight and information that the AHA will utilize for all future contracts to further ensure compliance with applicable regulations. The AHA will review all of its internal processes and controls and provide on-going training for staff as needed.

OIG's Evaluation of Auditee Comments

- Comment 1** The Authority stated that the roofing products manufactured in Canada were necessary to facilitate the proper installation of the roofing material. However, the Authority was unable to provide documentation to support that it requested or received a waiver from HUD of the Buy American purchase requirements. The Authority also stated that the purchase was expedited to prevent work stoppage. However, it was unable to provide documentation that expediting the purchase for the underlayment from Canada met the objectives of the Recovery Act.
- Comment 2** The Authority stated that documentation was provided to determine the location of manufacture for the \$117,419 of unsupported funds. However, the documentation provided was not sufficient to determine the products purchased or the location of manufacture. The supporting documentation included in Section A was not attached due to its size and use of personally identifiable information. The supporting documentation was not necessary to understand the Authority's comments.
- Comment 3** The Authority stated that it installed windows with a U-Factor of 0.32 and a Solar Heat-Gain Coefficient of 0.28, and that the U-Factor of 0.32 met Energy Star requirements. According to Energy Star requirements, a window with a U-Factor of 0.32, must have a SHGC rating of 0.40 or higher for the Northern region of the United States. Therefore, the windows purchased by the Authority did not meet Energy Star requirements. The Authority was unable to provide a cost analysis justifying the purchase of windows that did not meet the Energy Star requirements.
- Comment 4** The Authority stated the approximate costs and R-values for Energy Star-rated shingles and the shingles its contractor purchased and installed. However, the Authority was unable to provide documentation to support its determination of the shingle costs or the R-values provided.
- Comment 5** The Authority stated that documentation was provided to determine whether its contractor's employees were paid in accordance with the Davis-Bacon Act. However, the documentation provided was not sufficient to determine whether the contractor's employees were paid prevailing wages in accordance with the Davis-Bacon Act. The supporting documentation included in Section C was not attached due to its size and use of personally identifiable information.
- Comment 6** The Authority stated that by providing the same requirements and evaluation criteria to the solicited architectural firms, it assured that the procurement was conducted in a manner providing full and open competition. However, in order to ensure procurements are conducted in a manner providing full and open competition consistent with the standards in 24 CFR 85, HUD requires that requests for qualifications for architectural services be advertised in newspapers or print medium, trade journals or publications, or e-procurement systems. Direct

solicitation does not allow for full and open competition.

Comment 7 The Authority stated that checks are never released to a contractor until the project has been fully inspected and approved. However, of the 482 work items included in the contract, the Authority was unable to provide supporting documentation that inspections were completed for 318 work items.

Comment 8 The Authority stated that all of the products used met or exceeded minimum energy requirements. However, the Authority did not provide documentation that items purchased met minimum Energy Star requirements. The Authority also did not provide a cost analysis justifying the purchases that did not meet Energy Star requirements.

Appendix C

FEDERAL REQUIREMENTS AND THE AUTHORITY'S POLICY

Section 1605 of the Recovery Act states that none of the funds appropriated or otherwise made available by this Act may be used 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.

Section 1606 of the Recovery Act states that notwithstanding any other provision of law and in a manner consistent with other provisions in this Act, all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the Federal Government pursuant to this Act should be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of Title 40 United States Code.

Office of Management and Budget Memorandum M-10-08, part 2, states that recipients of Recovery Act funds subject to Section 1512 are required to submit estimates of jobs created and jobs retained for each project or activity in their recipient reports.

Regulations at 24 CFR 5.5(a)(3)(ii)(A) state that the contractor should submit weekly, for each week in which any contract work is performed, a copy of all payrolls.

Regulations at 24 CFR 85.36(c)(1) state that all procurement transactions will be conducted in a manner providing full and open competition.

Regulations at 24 CFR 85.36(d)(3)(i) state that requests for proposals will be publicized and identify all evaluation factors and their relative importance.

Regulations at 24 CFR 965.306 state that in purchasing original or replacement equipment, public housing agencies must acquire only equipment that meets or exceeds the minimum energy requirements established by the U.S. Department of Energy.

PIH Notice 2009-09, section 8, states that a public housing agency should purchase Energy Star labeled products such as windows and ensure that any new buildings are constructed according to Energy Star standards, unless the public housing agency's cost analysis finds that the incremental cost of the Energy Star products or building yields a negative life-cycle cost savings and exceeds HUD's total development cost limits.

PIH Notice 2009-12, section 7, states that the public housing agency should requisition funds only when payment is due and after inspection and acceptance of the work.

HUD Handbook 7460.8, REV-2, paragraph 7.1(F), states that the following methods of solicitation can be employed for competitive proposals: (1) advertising in newspapers or other print mediums, (2) advertising in various trade journals or publications, or (3) using e-procurement systems.

HUD Handbook 7460.8, REV-2, paragraph 7.1(G), states that the solicitation must be run for a period sufficient to achieve effective competition, which should generally be not less than once each week for 2 consecutive weeks.

The Authority's procurement policy, section XI(C), states that all specifications will be written to include energy-efficient products and appliances with an Energy Star or Federal Energy Management Program rating according to the Energy Policy Act of 2005.