



**West New York, NJ Housing Authority**  
**Recovery Act Capital Fund Program**



Issue Date: March 04, 2013

Audit Report Number: 2013-NY-1005

TO: Sonia Burgos  
Director, Office of Public Housing, Newark, NJ, Field Office, 2FPH

FROM: *Edgar Moore*  
Edgar Moore  
Regional Inspector General for Audit, New York-New Jersey Region, 2AGA

SUBJECT: West New York, NJ Housing Authority Officials Generally Administered Their Recovery Act Capital Fund Program in Accordance With Recovery Act and HUD Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the West New York, NJ Housing Authority officials' administration of the Recovery Act Capital Fund Program, conducted to determine whether Authority officials administered the Recovery Act Capital Funds in accordance with the Recovery and Reinvestment Act of 2009 and HUD requirements.

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 212-264-4174.



March 04, 2013

## West New York, NJ Housing Authority Officials Generally Administered Their Recovery Act Capital Fund Program in Accordance With Recovery Act and HUD Requirements

# Highlights

Audit Report 2013-NY-1005

### What We Audited and Why

We audited the West New York, NJ Housing Authority's American Recovery and Reinvestment Act Capital Fund program in support of the Office of Inspector General's audit plan goal to oversee Recovery Act-funded activities. We selected the Authority based upon a risk analysis of authorities receiving Recovery Act capital funds administered through the U.S. Department of Housing and Urban Development's (HUD) Newark, NJ, field office, which considered authorities' funding and HUD's risk analysis. The Authority received a moderate risk score of 57, ranking it 27<sup>th</sup> out of 107 authorities monitored by the field office. The audit objectives were to determine whether Authority officials obligated and expended their capital funds in accordance with the Recovery Act and HUD regulations and complied with Recovery Act reporting requirements.

### What We Recommend

We recommend that the Director of the HUD Newark, NJ Office of Public Housing instruct Authority officials to ensure their revised Actual Modernization Cost Certificate reflects the reclassification of \$68,260 in accordance with its revised budget.

### What We Found

Authority officials generally administered their Recovery Act capital fund program in accordance with the Recovery Act and HUD's requirements. Specifically, funds were obligated and expended in a timely manner for eligible activities and supported with adequate documentation, and the Authority's activities were reported in compliance with Recovery Act requirements. However, while costs were incurred for eligible activities, Authority officials misclassified \$68,260 to the fees and costs budget line item as opposed to that of dwelling structures. This occurred because officials over-expended dwelling structures and did not request a budget revision from HUD.

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## **BACKGROUND AND OBJECTIVES**

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The West New York, NJ Housing Authority is a nonprofit corporation created in 1950 under Federal and State housing laws as defined by New Jersey State statute for the purpose of engaging in the development, acquisition, and administrative activities of the low-income housing program and other programs with similar objectives for low- and moderate-income families residing in the town of West New York, NJ, in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The Authority is governed by a seven-member board of commissioners appointed by the mayor and town council. The Authority's day-to-day operations are overseen by the executive director, who is appointed by the board.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 into law.<sup>1</sup> 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. The funds included \$3 billion of formula grants and \$1 billion of competitive grants.

The Recovery Act required public housing agencies to obligate 100 percent of the funds within 1 year of the date on which the funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of such date. HUD awarded the Authority \$1.9 million in formula grant Recovery Act capital funds, which were made available to the Authority on March 18, 2009.

The objectives of the audit were to determine whether Authority officials obligated and expended their capital funds in accordance with the Recovery Act and HUD regulations and complied with Recovery Act reporting requirements.

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<sup>1</sup> Public Law 111-5

## RESULTS OF AUDIT

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### Finding: Authority Officials Generally Administered Their Recovery Act Capital Fund Program in Accordance With Requirements

Authority officials generally administered their Recovery Act Capital Fund program in accordance with Recovery Act and HUD requirements. Specifically, the funds were obligated and expended within required timeframes, used for eligible activities, and properly supported, and their use was reported in accordance with Recovery Act requirements. However, while costs were incurred for eligible activities, Authority officials misclassified \$68,260 to the fees and costs budget line item as opposed to that of dwelling structures. This occurred because officials over-expended dwelling structures and did not request a budget revision from HUD.

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#### **Funds Were Obligated and Expended in a Timely Manner**

Authority officials obligated all of the \$1.9 million awarded in Recovery Act capital funds by the required deadline of March 17, 2010. Further, they expended the funds by June 30, 2011, thus complying with the required obligation deadline of March 17, 2010, and 100 percent expenditure deadline of March 17, 2012.

The Recovery Act and HUD's Office of Public and Indian Housing Notice PIH 2009-12 required fund recipients to obligate 100 percent of the funds within 1 year of the date on which the funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of such date. Since the funds were made available to the Authority on March 18, 2009, Authority officials had to obligate all of the funds by March 17, 2010, and spend 100 percent by March 17, 2012.

#### **Funds Were Expended for Eligible Activity and Properly Documented**

The Authority used the funds to renovate bathrooms; replace hot water heaters; and upgrade lobbies, stair enclosures, and elevators as follows:

<b>Budget line item</b>	<b>Activity</b>	<b>Amount obligated</b>
Fees and costs	Architect-engineer	\$ 150,000
Dwelling structures	Water heaters	709,902
Dwelling structures	Lobbies & stairs	433,465
Dwelling structures	Elevators	341,727
Dwelling structures	Bathrooms	246,535
<b>Total</b>		<b>\$1,881,629</b>

These activities were included in the Authority’s annual statement as required, and Authority officials complied with Recovery Act procurement requirements in the acquisition of the activities reviewed. Specifically, they properly procured all contracts, ensuring that they were competitively awarded, and maintained procurement files to detail the history and method of the procurements, bid advertisement and specifications, cost and price analysis, contractor selection, and compliance with Davis-Bacon Act and buy American requirements. In addition, proper supporting documentation was maintained for all disbursements.

While all costs were incurred for eligible activities, Authority officials obligated and disbursed \$68,260 more than was budgeted for budget line item 1460, dwelling structures. Regulations at 24 CFR (Code of Federal Regulations) 968.125 require that an authority undertake modernization activities as approved by HUD in the budget, annual statement, or 5-year plan. As a result of the misclassification, \$68,260 was unavailable to be expended for dwelling and structure costs. This condition occurred because Authority officials did not request a budget revision from HUD as required but, rather, charged the excess cost to budget line item 1430, fees and costs. Upon our notifying them, Authority officials promptly requested a budget revision from HUD. HUD officials approved the request and required Authority officials to include the approved cost certificate in the Authority’s next fiscal year audit. The report is required to be submitted within nine months after the beginning of next fiscal year cycle. Therefore, Authority officials can correctly complete and submit to HUD their Actual Modernization Cost Certificate (form HUD-53001)<sup>2</sup>, thus ensuring that the funds were put to better use.

**Recovery Act-Funded Activity  
Was Properly Reported**

Authority officials complied with all reporting requirements by the required deadlines. They reported obligations, expenditures, and the number of jobs created or retained in accordance with Recovery Act requirements and guidance issued by the Office of Management and Budget. Section 1512 of the Recovery

<sup>2</sup> Regulations at 24 CFR 968.125 require that authority officials undertake modernization activities as approved by HUD in the budget, annual statement, or 5-year plan, and regulations at 24 CFR 968.145(A) and (B) require that upon completion of the activities funded in a modernization program, the officials submit to HUD a form HUD-53001 to initiate the fiscal closeout of any modernization grants.

Act required all recipients to report on their activities, job creation, and job retention in FederalReporting.gov, a system created and managed by the Office of Management and Budget. While the Authority did not retain or create jobs as a result of the Recovery Act funding, Authority officials reported jobs based upon data supplied by the contractors performing the Recovery Act-funded activities, which was supported by payroll documentation.

## Conclusion

Authority officials generally administered their Recovery Act Capital Fund program in accordance with the Recovery Act and HUD requirements. As a result, the funds were obligated and expended within required timeframes, used for eligible activities, and properly supported, and their use was reported in accordance with Recovery Act requirements. However, while costs were incurred for eligible activities, Authority officials charged budget line item fees and costs for \$68,260 of costs that should have been charged to budget line item dwelling structures. As a result, costs were misclassified.

## Recommendations

We recommend that the Director of the HUD Newark Office of Public Housing instruct Authority officials to

- 1A. Ensure that the Authority's revised Actual Modernization Cost Certificate (form HUD-53001) reflects the reclassification of \$68,260 from budget line item fees and costs to dwelling structure costs in accordance with its revised budget.



## SCOPE AND METHODOLOGY

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The review focused on whether Authority officials administered the Recovery Act Capital Fund program in accordance with applicable regulations. To accomplish our audit objectives, we

- Reviewed the Recovery Act and applicable HUD regulations and guidance.
- Obtained an understanding of the Authority's financial and management controls.
- Interviewed HUD field office staff and Authority officials.
- Reviewed the Authority's financial and management data in HUD's Line of Credit Control System,<sup>3</sup> HUD's Financial Assessment Submission-Public Housing, and HUD's Public and Indian Housing Information Center system. Assessment of the reliability of the data in these systems was limited to the data sampled, which was reconciled to the Authority's records.
- Reviewed the Authority's performance evaluation reports, budgets, financial data schedules, procurement records, and contract files.
- Reviewed HUD monitoring reports and independent public accountant audit reports.
- Analyzed the Authority's Recovery Act obligations, procurements, and disbursements.
- Selected a nonstatistical sample of \$1 million in Recovery Act Capital Fund program drawdowns, representing 53 percent of the \$1.9 million drawn down during the audit period, and reconciled the amount to the Authority's trial balance and supporting documentation. The sample selection was not statistically based but identified the highest drawdowns in fees and costs (budget line item 1430) and dwelling structures (budget line item 1460); therefore, the results were not projected to the universe.
- Selected a nonstatistical sample of 8 of the 10 contracts, valued at \$1.5 million, representing 80 percent of the \$1.9 million in Recovery Act funds obligated, to determine whether funds were properly obligated for eligible activities. The sample selection was not statistically based but included the two highest valued contracts and six other contracts to get a representation of different types of contracts, such as architectural and engineering and emergency procurements. Therefore, the results were not projected to the universe.

We conducted our audit work at the Authority's office located at 6100 Adams Street, West New York, NJ. The audit generally covered the period March 1, 2009, through June 30, 2012, and was expanded as necessary to meet our objectives.

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<sup>3</sup> HUD's Line of Credit Control System is the system HUD uses to disburse and track the payment of grant funds to grant recipients

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 objectives.

# 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 objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports

We assessed the relevant controls identified above, and no significant deficiencies were identified.

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 the 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**

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. 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 the West New York Housing Authority's internal control as a whole.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation Number	Funds to be put To better use <sup>1/</sup>
1A.	\$68,260

<sup>1/</sup> 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. In this case, Authority officials obtained a budget revision from HUD and will be able to correctly complete and submit to HUD their Actual Modernization Cost Certificate (form HUD-53001), thus ensuring that the \$68,260 will be properly reported and the funds put to better use.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

#### HOUSING AUTHORITY/WNY

JOSEPH F. RODRIGUEZ  
*Chairman*

AIDA ROQUE  
*Vice-Chairperson*

*Commissioners*  
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ROBERT A. DIVINCENT  
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*Attorney*

February 15, 2012

Mr. Edgar Moore  
Office of the Audit  
New York/New Jersey Region 2  
26 Federal Plaza  
Room 3430  
New York, NY 10278

**Re: Audit Report  
West New York Housing Authority  
West New York, NJ 07093**

Dear Mr. Moore:

I am in receipt of a draft audit report which, as I understand, will be forwarded to the Newark Area Office for review and action or comment.

I have reviewed the report and find it to be accurate and do not disagree with the details of the report but I do feel an explanation is warranted.

As stated, the West New York Housing Authority administered the ARRA funds approximately 2,000,000 in accordance with the requirements of the program. We both obligated and expended the funding within the required time frames. All funds were spent on eligible activities and the expenditures were properly supported and documented.

However, initially when establishing a budget for our expenditures we had estimated A/E cost to be higher than actual and thought a better use for those funds was additional capital improvements of the properties involved. A budget revision followed and was approved. Our error was one of the timeliness not misclassification.

**Comment 1**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

Mr. Moore  
February 14, 2013  
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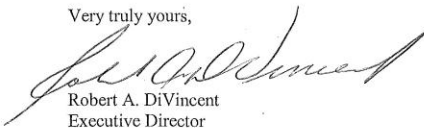
We were well aware that the expenditure was to be charged to dwelling structures but believed the funds to be fungible if being used for a better purpose. The auditor concurred noted our approved revision and agreed the funds were "put to better use".

I apologize for the delay in submitting our revision and assure you that we will be more diligent in the future with submittals of any nature.

I would like it noted that the audit process was conducted in a highly professional manner with no disruption of the daily operations of the Authority.

If you have any additional questions or comments please feel free to call my office.

Very truly yours,



Robert A. DiVincent  
Executive Director

RAD:bv

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

**Comment 1** As the report notes, all costs were incurred for eligible activities; however, Authority officials charged budget line item 1430, fees and costs, for \$68,260 of costs allowable under budget line item 1460, dwelling structures. This was done because budget line item 1460 had been fully dispersed and a budget revision had not been requested. Once we informed Authority officials of this condition, they requested, and received, HUD approval to revise their budget. Auditee officials should ensure in the future that actual costs are charged to appropriate budget line items.