



Issue Date April 13, 2010

Audit Report Number 2010-PH-1006

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH

//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: Audit of the Housing Authority of the City of Pottsville, PA's Recovery Act Capital Fund Grant

HIGHLIGHTS

What We Audited and Why

We selected the Housing Authority of the City of Pottsville, PA (Authority), for audit because it was awarded a Public Housing Capital Fund grant of \$992,895 under the American Recovery and Reinvestment Act of 2009 (Recovery Act) and it had obligated and drawn down \$477,226 of the grant funds within 6 months of receiving the grant. Our objective was to determine whether the Authority administered grant funds provided under the Recovery Act according to Recovery Act requirements and applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

The Authority generally administered grant funds provided under the Recovery Act according to Recovery Act requirements and applicable HUD rules and regulations. However, it did not prepare independent cost estimates before soliciting bids for its grant-funded activities.

What We Recommend

We recommend that HUD require the Authority to develop and implement controls to ensure that it creates independent cost estimates as required and documents them in its contract files.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on March 25, 2010. The Authority provided written comments to our draft report on March 29, 2010. It agreed with the conclusions and recommendations in the report. The complete text of the Authority's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Pottsville (Authority) was formed in 1960 under the Housing Authorities Law of the Commonwealth of Pennsylvania. Its primary objective is to provide a variety of housing assistance programs for the low-income residents of Pottsville, PA. The Authority is governed by a five-member board of commissioners appointed by the mayor of Pottsville. The board appoints an executive director to manage the day-to-day operations of the Authority. The current executive director is Craig S.L. Shields. The Authority's offices are located at 410 Laurel Boulevard, Pottsville, PA. During our audit period, the Authority owned and operated 508 public housing units in 8 developments under an annual contributions contract with the U.S. Department of Housing and Urban Development (HUD).

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). This legislation included a \$4 billion appropriation of capital funds to carry out capital and management activities for public housing agencies, as authorized under Section 9 of the United States Housing Act of 1937. The Recovery Act requires that \$3 billion of these funds be distributed as formula funds and the remaining \$1 billion be distributed through a competitive process. On March 18, 2009, HUD awarded the Authority a formula grant of \$992,895.

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing Public Housing Capital Fund program grants. Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act.

The Authority allocated its grant toward the construction of a storage building for its public housing tenants, plumbing and lobby renovations, sidewalk improvements, the replacement of air conditioning/heating units, window replacement, and administrative expenses. Grant funds can be used to address deferred maintenance needs, including but not limited to

- Replacement of obsolete systems and equipment with energy-efficient systems and equipment that reduce consumption,
- Work items related to code compliance including abatement of lead-based paint and implementation of accessibility standards,
- Correction of environmental issues, and
- Rehabilitation and modernization activities that have been delayed or not undertaken because of insufficient funds.

Our objective was to determine whether the Authority administered grant funds provided under the Recovery Act according to Recovery Act requirements and applicable HUD rules and regulations.

RESULTS OF AUDIT

Finding: The Authority Generally Administered Grant Funds in Accordance With Applicable Requirements

Overall, the Authority administered its grant funds in accordance with the requirements of the Recovery Act and HUD rules and regulations. Specifically, it (1) used grant funds for eligible activities included in its annual plan or 5-year action plan, (2) obligated and expended grant funds within established deadlines, (3) received and disbursed grant funds in a timely manner, (4) effectively monitored and reported on its grant funds, and (5) generally procured goods and services in accordance with applicable HUD requirements.

The Authority Used Grant Funds for Eligible Activities Included in Its Annual Statement or 5-Year Action Plan

The Authority selected and funded eligible activities and work items from its annual plan and 5-year action plan. Under the Recovery Act, HUD's Office of Public and Indian Housing (PIH) issued Notice PIH 2009-12, which required the Authority to use grant funds for eligible activities or work items currently identified in either its annual statement or 5-year action plan.

The Authority Met Required Obligation and Expenditure Deadlines

Under the Recovery Act and HUD Notice PIH 2009-12, the Authority was required to obligate 100 percent of its \$992,895 grant by March 18, 2010. The Authority obligated 100 percent of its grant by December 7, 2009, well ahead of the deadline. The Recovery Act and HUD Notice PIH 2009-12 also required the Authority to expend at least 60 percent of the grant by March 18, 2011. The Authority expended \$769,378, or 77 percent, of its grant by January 31, 2010, well ahead of the deadline.

The Authority Received and Disbursed Grant Funds in a Timely Manner

The Authority drew down grant funds from HUD's automated Line of Credit Control System only when the payments were due and after it had inspected and accepted the work. It generally disbursed the funds within 3 working days as required by HUD Notice PIH 2009-12. The Authority maintained documentation submitted by contractors/vendors to support payments. The documentation adequately supported the payments.

The Authority Was Effective in Monitoring and Reporting Grant Funds

The Authority effectively monitored, tracked, and reported its grant funds. Throughout the audit, the Authority demonstrated that its monitoring, tracking, and reporting were generally reliable and in compliance with Section 1512 of the Recovery Act. The Authority reported accurate job creation information to the appropriate Federal reporting Web site.

The Authority Generally Procured Goods and Services in Accordance With Applicable HUD Requirements

The Authority generally followed HUD procurement regulations in 24 CFR (Code of Federal Regulations) 85.36; HUD Handbook 7460.8, REV-2; and guidance in HUD Notices PIH 2009-12 and PIH 2009-31. For example, the Authority

- Amended its procurement policy as required by HUD Notice PIH 2009-12 to expedite and facilitate the use of grant funds by making State and local laws and regulations inapplicable for Recovery Act grants.
- Gave sufficient priority to projects and work items for which contracts, based on bids, could be awarded within 120 days from February 17, 2009, as required by HUD Notice PIH 2009-12. It awarded two contracts totaling \$462,320 (47 percent of the grant), based on bids, within the 120-day timeframe.
- Received an adequate number of bids to ensure that it awarded contracts competitively as required by 24 CFR 85.36 and HUD Handbook 7460.8, REV-2.

- Complied with HUD guidance for implementing the “buy American” requirement of the Recovery Act in HUD Notice PIH 2009-31.

However, the Authority did not document independent cost estimates before soliciting bids. HUD regulations at 24 CFR 85.36 and HUD Handbook 7460.8, REV-2 require housing authorities to prepare an independent cost estimate before the solicitation of offers. The independent cost estimate serves as the Authority’s yardstick for evaluating the reasonableness of the contractor’s proposed costs or prices. The Authority’s procurement policy reiterates this requirement. The Authority stated that there were no cost estimates in the contract files because its architectural consultant provided verbal cost estimates. Although the Authority lacked written cost estimates for its Recovery Act contracts, there was no effect on the contract costs because the Authority had obtained a sufficient number of bids to demonstrate that contracts were awarded competitively.

We discussed this issue with responsible Authority staff members during the audit, and they confirmed that the Authority also did not obtain written cost estimates for contracts related to its ongoing Public Housing Capital Fund program. The Authority’s executive director informed us that the Authority had since instructed its architectural firm to provide written cost estimates and that it would maintain the cost estimates in its contract files.

Recommendations

We recommend that the Director of HUD’s Pennsylvania State Office of Public Housing require the Authority to

- 1A. Develop and implement controls to ensure that it creates independent cost estimates as required.
- 1B. Maintain copies of independent cost estimates in its contract files.

SCOPE AND METHODOLOGY

We conducted the audit from October 2009 through March 2010 at the Authority's offices located at 410 Laurel Boulevard, Pottsville, PA, and our office located in Philadelphia, PA. The audit covered the period February through September 2009 but was expanded when necessary to include other periods.

To complete our audit, we

- Obtained relevant background information;
- Reviewed Public Law 111-5, the American Recovery and Reinvestment Act of 2009, dated February 17, 2009;
- Reviewed applicable HUD rules, regulations, and guidance;
- Reviewed policies and procedures related to procurement, monitoring/reporting of grant funds, expenditures, and disbursements;
- Reviewed the Authority's fiscal years 2007 and 2008 audited financial statements;
- Interviewed relevant Authority staff;
- Interviewed officials from HUD's Pennsylvania State Office of Public Housing;
- Reviewed relevant monitoring/reporting records, financial records, and procurement records; and
- Conducted on-site reviews of work items completed or to be completed by the Authority at various housing developments where the grants funds were being used.

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 audit results and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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:

- Program operations - Policies and procedures that were implemented to reasonably ensure that procurement activities were conducted in accordance with applicable requirements.
- Validity and reliability of data - Policies and procedures that were implemented to reasonably ensure that payments to contractors/vendors were made in accordance with applicable requirements.
- Compliance with laws and regulations - Policies and procedures that were implemented to ensure accurate and timely reporting and monitoring of grant funds in accordance with applicable requirements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we did not identify any significant weaknesses in the Authority's internal controls that would affect its ability to manage and administer Recovery Act-funded activities.

Appendix A

AUDITEE COMMENTS

Housing Authority of the City of Pottsville

COMMISSIONERS
VINCENT P. WYCIUNAS, CHAIRMAN
ROBERT OETTL, JR.
MARIE A. WILSON
JOHN E. QUIRK
DAVID M. WIXTED

410 Laurel Boulevard
Pottsville, PA 17901

EXECUTIVE DIRECTOR
CRAIG S.L. SHIELDS, MPA, PHM
SOLICITOR
ATTY. FREDERICK J. FANELLI, JR.

March 29, 2010

John P. Buck
Regional Inspector General for Audit
Wanamaker Building
100 Penn Square East, Suite 1005
Philadelphia, PA 19107-3380

Dear John:

As per our telephone conference on March 25, 2010, we are in agreement with your findings and recommendations. In the future, we will require and implement controls for independent cost estimates. We will document and retain these records for our files. Thank you and your staff, especially Forrell Grant, for being very professional during this Audit period. If there is any additional information you may require, please feel free to contact us.

Sincerely,



Henry Schlitzer
Comptroller

x (570) 628-5910 • TDD (570) 628-0687 • CSLS@Pottsvillehousing.net

(570) 628-2702 • Fa