



Issue Date	September 30, 2010
Audit Report Number	2010-KC-1009

TO: Debra L. Lingwall, Coordinator, Omaha Public Housing
Program Center, 7DPHO

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Omaha, Nebraska Housing Authority Did Not Comply With Recovery Act
Requirements When Reporting on Recovery Act Capital Funds

HIGHLIGHTS

What We Audited and Why

We selected the Omaha, NE, Public Housing Authority (Authority) capital fund grant awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) for review because it received a formula grant of more than \$5 million. Our audit objectives were to determine whether the Authority (1) obligated Recovery Act grant funds in accordance with Recovery Act requirements and applicable U.S. Department of Housing and Urban Development (HUD) rules, (2) expended Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules, and (3) accurately and completely reported the Recovery Act grant information to Recovery.gov.

What We Found

The Authority generally obligated and expended Recovery Act grant funds in accordance with Recovery Act requirements, but it did not accurately or completely report Recovery Act grant information to Recovery.gov.

What We Recommend

We recommend that HUD require the Authority to obtain training for its staff and management on requirements for reporting to Recovery.gov.

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 provided the initial draft report to the Authority on September 13, 2010 and provided a revised draft for comment on September 24, 2010. We requested a response by September 27, 2010 and the Authority provided written comments on September 28, 2010. The Authority took exception with one portion of the finding, but agreed with the rest of the finding and the recommendation.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Omaha Housing Authority (Authority) began operations in 1935 following the Nebraska Legislature's passage of the Metropolitan Cities Housing Authorities Law. The Authority receives funding from the U.S. Department of Housing and Urban Development (HUD) to furnish rental assistance to low- and moderate-income individuals for safe and sanitary housing. A seven-member board of commissioners governs the Authority, and an executive director manages its daily operations. The Authority's administrative offices are located at 540 South 27th Street, Omaha, NE.

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 grants and the remaining \$1 billion be distributed through a competitive grant process. On March 18, 2009, HUD awarded the Authority a \$5 million Public Housing Capital Fund stimulus (formula) grant that was Recovery Act funded. During the 2007 and 2008 fiscal years, the Authority received annual capital fund grants totaling nearly \$3.9 million and more than \$4 million, respectively.

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. For example, the Authority was required to obligate 100 percent of its formula grant funds by March 18, 2010. It is required to expend 100 percent of the grant funds by March 18, 2012. Transparency and accountability are critical priorities in the funding and implementation of the Recovery Act.

Our audit objectives were to determine whether the Authority

- (1) Obligated Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules,
- (2) Expended Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules, and
- (3) Accurately and completely reported the Recovery Act grant information to Recovery.gov.

RESULTS OF AUDIT

Finding: The Authority Did Not Accurately or Completely Report Recovery Act Grant Information to Recovery.gov

The Authority did not accurately or completely report Recovery Act grant information to Recovery.gov. This deficiency occurred because the Authority did not have adequate controls over employee supervision or training. As a result, the general public did not have access to accurate information related to the Authority's Recovery Act grant.

The Authority Did Not Accurately Report Jobs

The Authority generally obligated and expended Recovery Act grant funds in accordance with Recovery Act requirements, but it did not accurately or completely report Recovery Act grant information to Recovery.gov. The Recovery Act grant recipients are required to report the following information to Recovery.gov:

- Amount of the Recovery Act grant award
- Project information for use of the grant funds
- Number of jobs created or retained with the Recovery Act grant
- Funds invoiced
- Funds received
- Expenditure amounts
- Listing of vendors receiving Recovery Act funds
- Vendor transactions/payments

The Authority did not use staff hours to calculate full-time job equivalents. The Recovery act requires full-time-equivalent jobs to be calculated using staff hours worked per quarter. Authority staff members who reported the jobs estimated the number of jobs by observing how many people worked on the Recovery Act projects per day for the first reporting quarter. Authority staff members told us that they estimated 18 full-time equivalents for contractors, 1.5 for engineers, and 1.5 for Authority employees working on Recovery Act-related projects for a total of 21. Authority staff was unable to explain why an extra .5 full-time equivalent was reported for the first quarter.

The Authority reported

- 21.5 jobs created or retained for the quarter ending September 30, 2009;
- 21 jobs created or retained for the quarter ending December 31, 2009; and
- 21 jobs created or retained for the quarter ending March 31, 2010.

After the first reporting quarter, the Authority reported about the same number of jobs for the next two quarters because Authority staff estimated that the project activity was approximately the same. Our calculations show that the number of created or retained jobs reported should have been about 17 for contractors and zero for the Authority's staff.

The Authority included 1.5 full-time equivalents of its own staff in its reported estimate; however, it did not use staff hours to calculate the number. The finance director told us that Authority staff did not track its hours spent working on the Recovery Act grant, and, therefore, the Authority was unable to calculate full-time equivalents for its staff. The Authority should not have reported the engineers. The reporting requirements state that indirect grant recipients, such as architects and engineers who are considered to be service providers, should not be counted.

The Authority Did Not Accurately Report Expenditures

The Authority overreported expenditures for the quarter ending December 31, 2009, and underreported expenditures for the quarter ending March 31, 2010. In addition, it only reported two vendors that received funds in the quarter ending March 31, 2010. However, four vendors were paid with Recovery Act funds. The Authority is required to report vendors that receive Recovery Act funds, and the Authority omitted two vendors because the staff person doing the reporting did not know how to add vendors to the Authority's profile on Recovery.gov. In this case, the Authority was one of the missing vendors because it paid itself for administrative expenses related to the Recovery Act grant.

The following table lists what was reported to Recovery.gov, what the actual expenditures were, and the difference between the two numbers.

Type of expenditure	Reported to	Actual	Reporting
Quarter ending 12/31/2009	Recovery.gov	expenditures	differences
Construction contract	\$1,372,180	\$1,240,362	\$131,818
Demolition contract	\$95,000	\$74,493	\$20,507
Total amount of payments to vendors over \$25,000	\$1,467,180	\$1,314,855	\$152,325

Quarter ending 3/31/2010			
Construction contract	\$1,372,180	\$1,240,362	\$131,818
Demolition contract	\$95,000	\$95,785	(\$785)
Architecture & engineering contract	\$0	\$50,374	(\$50,374)
Administrative expenses	\$0	\$150,998	(\$150,998)
Expenditure total	\$1,537,512	\$1,537,520	(\$8)
Total amount of payments to vendors over \$25,000	\$1,467,180	\$1,537,520	(\$70,340)

Authority Staff Was Not Adequately Trained

The Authority did not have adequate controls over employee supervision or training. The only staff person trained on reporting requirements no longer works at the Authority. The staff person currently reporting Recovery Act information had not been trained on reporting requirements, and he told us that he had not read any of the guidance on the subject. He said that he did not know he was supposed to use staff hours to calculate full-time-equivalent jobs and that he did not know how to add vendors to Recovery.gov for reporting purposes. Management at the Authority was unaware that the jobs, expenditures, and vendors were incorrectly reported to Recovery.gov.

Recovery Act Grant Lacked Transparency

The general public did not have access to accurate information related to the Authority's Recovery Act grant. Further, grant recipients that report inaccurate information hinder the Recovery Act's goal of transparency in government spending.

Recommendations

We recommend that the Coordinator of the Omaha Public Housing Program Center

- 1A. Require the Authority to obtain training for its staff regarding reporting to Recovery.gov. The training should include Authority management so that it can adequately supervise staff responsible for reporting.

SCOPE AND METHODOLOGY

Our review generally covered the period January 2009 through April 2010 and was expanded as necessary. We performed onsite work from May through July 2010 at the Authority's office located at 540 South 27th Street, Omaha, NE.

To achieve our audit objectives, we conducted interviews of the Authority's staff and HUD staff at the Omaha, NE, Office of Public Housing. We reviewed the Authority's policies and procedures, procurement files, construction contract files, records of grant obligations, and expenditure files. We also reviewed the Authority's capital fund budgets, annual plan, correspondence with HUD, annual contributions contract amendments, and audited financial statements. In addition, we reviewed Federal regulations, the Recovery Act, and HUD requirements.

We reviewed 100 percent of the Authority's Recovery Act obligations and expenditures. The entire grant was obligated with six contracts plus administration and labor costs. As of July 2010, the Authority had made 11 draws on the Recovery Act grant totaling more than \$1.5 million in grant expenditures.

We relied in part on HUD's Line of Credit Control System. We did not conduct tests of the data or controls governing the data. We did not use the data to support audit conclusions but used only original source documents to reach our conclusions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

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

Relevant Internal Controls

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

- Controls to ensure that the Authority obligated Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules.
- Controls to ensure that the Authority expended Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules.
- Controls to ensure that the Authority reported Recovery Act grant information to Recovery.gov.

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.

Significant Deficiency

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

- The Authority did not have adequate controls over employee supervision or training.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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Omaha
Housing
Authority

September 28, 2010

Mr. Ronald J. Hosking
Regional Inspector General for
Audit U.S. Department of Housing and Urban Development
Office of Inspector General
Region VII Office of Audit Gateway Tower II
400 State Avenue, 5th Floor
Kansas City, KS 66101-2406

Dear Mr. Hosking:

This is in reply to your September 24, 2010, letter providing a draft audit report of the Housing Authority of the City of Omaha's (Authority or OHA) additional capital funds awarded under the American Recovery and Reinvestment Act (ARRA). You requested that we provide our response by September 27, 2010. We appreciate the opportunity to comment on the draft report. While we are mindful of the hard work and analysis of the auditors we believe that given the uniqueness, the swift nature that ARRA was rolled out and the massive amount of guidance, some conflicting in nature, we believe that the singular finding is not as clear cut and may be subject to another reasonable opinion.

RESPONSE TO FINDING #1:

The Authority did not accurately or completely report Recovery Act grant information to Recovery.gov. This deficiency occurred because the Authority did not have adequate controls over employee supervision or training.

The Authority generally agrees with the assessment provided by the OIG and is in the process of gaining additional training on proper reporting. However, the Authority wishes to challenge only the finding with regards to the engineering jobs created or retained. The draft audit advises that:

Authority should not have reported the engineers. The reporting requirements state that indirect grant recipients, such as architects and engineers who are considered to be service providers, should not be counted.

Comment 1

In our opinion the basis provided to support this finding, the Office and Management Memorandum of December 18, 2009 (M-10-80), is not as clear cut and definitive on this finding as articulated in the draft report.

M-10-80 does not appear to use the term "indirect grant recipients" as set forth in the draft audit or advise that the architect and engineers are to be counted as service providers, and therefore, should not be counted. It appears that conclusion reached in the finding is one of a difference in interpretation of what appears to be, in our opinion, vague guidance from OMB.

M-10-08, clearly states the following:

- 5.2.6 *Prime recipients of grants, loans must include an estimate of jobs created and retained on projects and activities managed by their funding recipients.*
- 5.2.7 *Those jobs shall only be reported for critical support positions and not for central service providers.*
- 5.2.9. *Recipients will report on only projects and activities funded in whole or in part by the Recovery Act.*
- 5.2.10. *This Guidance does not establish specific requirements for documentation or other written proof to support reported estimates on jobs created or retained; however, recipients should be prepared to justify their estimates. Recipients must use reasonable judgment in determining how best to estimate the job impact of Recovery dollars, including the appropriate sources of information used to generate such estimate.*

OHA staff used this guidance to include engineers directly, or as critical support positions, involved with and paid by ARRA funds in the calculation for jobs retained and believes that staff interpretation is not excluded by OMB M-10-08 to include engineers as being excluded as indirect grant recipients.

Thank you for the opportunity to respond to the draft audit and we hope that you will consider the merit of our response as you prepare the final document for public release.

Sincerely,



Stanley P. Timm
Executive Director

Copy to: Debra Lingwall, Omaha HUD Office, Program Center Coordinator
Philip Wayne, Chairman, OHA Board of Commissioners

OIG Evaluation of Auditee Comments

Comment 1 The Authority took exception to the statement that indirect jobs should not have been counted for reporting purposes. OMB Memorandum M-10-08, issued December 18, 2009 says “Recipients should not attempt to report the employment impact upon materials suppliers and central service providers (so called “indirect” jobs)”. The Authority asserts that the OMB guidance is vague regarding reporting requirements. Implementation of our recommendation for Authority staff to obtain training on Recovery Act reporting requirements should clarify any guidance that appears to be ambiguous.

Appendix B

CRITERIA

Office of Management and Budget (OMB) Memorandum M-09-21, issued June 22, 2009

Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009

- 5.3 The requirement for reporting jobs is based on a simple calculation used to avoid overstating the number of other than full-time permanent jobs. This calculation converts part-time or temporary jobs into “full-time equivalent” jobs. In order to perform the calculation, a recipient will need the total number of hours worked that are funded by the Recovery Act. The recipient will also need the need the number of hours in a full-time schedule for a quarter.

OMB Memorandum M-10-08, issued December 18, 2009

Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates

5. Non-compliant recipients, including those who are persistently late or negligent in their reporting obligations, are subject to Federal action, up to and including the termination of Federal funding or the ability to receive Federal funds in the future.
- 5.2 Key Principles:
2. A funded job is defined as one in which the wages or salaries are either paid for or will be reimbursed with Recovery Act funding.
 4. The estimate of the number of jobs created or retained by the Recovery Act should be expressed as “full-time equivalents.” In calculating a full-time equivalent, the number of actual hours worked in funded jobs is divided by the number of hours representing a full work schedule for the kind of job being estimated.
 7. Recipients should not attempt to report the employment impact upon materials suppliers and central service providers (so called “indirect” jobs).