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Audit Report Number 2011-AO-0002

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

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Gulf Coast Region, 11
AGA

SUBJECT: The Lafayette Parish Housing Authority, Lafayette, LA, Generally
Followed Requirements When Obligating and Expending Its Public Housing
Capital Fund Stimulus Recovery Act funds But Did Not Always Comply With
Recovery Act Procurement and Reporting Requirements

HIGHLIGHTS

What We Audited and Why

As a spinoff of a prior assignment and as part of our annual audit plan, we audited the Lafayette Parish Housing Authority's Public Housing Capital Fund Stimulus Recovery Act funded grant. Our objective was to determine whether the Authority followed U.S. Department of Housing and Urban Development (HUD) and American Recovery and Reinvestment Act of 2009 requirements. Specifically, we wanted to determine whether the Authority (1) properly obligated and expended its Recovery Act capital funds, (2) accurately reported its Recovery Act activities, and (3) followed Recovery Act requirements when procuring contracts for goods or services.

What We Found

The Authority generally followed Recovery Act requirements when obligating and expending its Public Housing Capital Fund Stimulus Recovery Act funded grant. However, it did not always (1) enter its Recovery Act activities into the

Recovery Act Management and Performance System (RAMPS), (2) report its Recovery Act activities by specified deadlines in neither RAMPS nor federalreporting.gov, or (3) enter accurate Recovery Act expenditure information into federalreporting.gov, as required. In addition, the Authority could not justify its reported estimates of jobs created or retained. These conditions occurred because the Authority did not have (1) adequate or experienced staff to perform the reporting function after its deputy director resigned or (2) adequate record-keeping practices. As a result, the Authority provided minimal transparency of and accountability for its Recovery Act activities.

The Authority generally procured its Recovery Act contract in accordance with Federal regulations. However, it did not (1) amend and label its written procurement policy for use with only Recovery Act grant procurements, as required, or (2) include HUD-required provisions in its Recovery Act-funded contract. These conditions occurred because the Authority ignored HUD's recommendations to correct the procurement policy and did not have adequately trained staff. As a result, it was at risk, during the Recovery Act funding period, of exposure to disputes over contract selections. Further, by not having the proper contract provisions, the Authority may not have been able to enforce those regulatory provisions with its contractors.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Field Operations require the Authority to (1) correct inaccurate Recovery Act expenditure amounts reported in federalreporting.gov for the second and fourth quarters of 2010 and (2) provide justification for its estimates of jobs created or retained in federalreporting.gov for the second, third, and fourth quarters of 2010 and the first quarter of 2011. Since the Authority had completed its Recovery Act program, we did not provide a recommendation regarding the procurement violation.

Auditee's Response

We provided a copy of the draft report to HUD on August 5, 2011, and held an exit conference with HUD on August 9, 2011. During the exit conference, HUD generally agreed with our findings and recommendations. We asked HUD to provide written comments to the draft report by August 12, 2011. On August 11, 2011, HUD informed us that it generally agreed with our audit results and recommendations and elected not to provide formal written comments.

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BACKGROUND AND OBJECTIVE

The Lafayette Parish Housing Authority is a public corporation located at 115 Kattie Drive, Lafayette, LA. The Authority's mission is to provide (1) safe, decent, and affordable housing to low-income families and (2) self-sufficiency programs to promote education, health, home ownership, and social programs for residents of public housing and participants of the Section 8 program. The Authority manages six developments in the Lafayette area. Effective March 28, 2011, the U.S. Department of Housing Urban Development (HUD) placed the Authority under administrative receivership.¹ HUD's administrative receiver replaced the Authority's executive director to control the day-to-day operations of the Authority, and HUD's one-member board of commissioners replaced the Authority's board of commissioners to provide additional oversight.

The American Recovery and Reinvestment Act of 2009 became Public Law 111-5 on February 17, 2009. It appropriated \$4 billion for the Public Housing Capital Fund Stimulus Recovery Act funded grant to carry out capital and management activities for public housing agencies. It allocated \$3 billion for formula grants and \$1 billion for competitive grants. On March 18, 2009, HUD and the Authority executed amendment number 20 to the Authority's annual contributions contract, in which HUD agreed to provide Recovery Act assistance to the Authority in the amount of more than \$1 million.

The Recovery Act funds support three themes that align with the broader goals of the Recovery Act: (1) promoting energy efficiency and creating green jobs, (2) unlocking the credit markets and supporting shovel-ready projects, and (3) mitigating the effects of the economic crisis and preventing community decline. HUD's overriding objective in support of these goals is the creation and preservation of jobs.

The Recovery Act required the Authority to (1) obligate 100 percent of the funds within 1 year of the date on which funds became available to the agency for obligation, (2) expend 60 percent of the funds within 2 years, and (3) expend 100 percent of the funds within 3 years of the date on which funds became available to the agency. HUD made Recovery Act formula grants available on March 18, 2009, resulting in an obligation deadline of March 17, 2010.

In addition, HUD required the Authority to use its formula grant for eligible activities already identified in either its annual statement or 5-year action plan.² Further, HUD required the Authority to report its obligations and expenditures in HUD's Line of Credit Control System. Additionally, two specific provisions in the Recovery Act required quarterly reporting on the part of agencies and grantees. Section 1512 required recipients and subrecipients to report on activities, job creation, and job retention, and Section 1609 required agencies to report on the status of compliance with the National Environmental Policy Act (NEPA) for all Recovery Act-funded projects and activities.

¹ This is a process whereby HUD declares a public housing agency in substantial default of its annual contributions contract and takes control of the agency under the powers granted to the HUD Secretary under the Housing Act of 1937 as amended.

² The annual statement, annual plan, and 5-year action plan are all components of the Authority's comprehensive plan. The HUD-approved comprehensive plan sets forth all of the Authority's physical and management improvement needs for its public housing developments.

As of February 28, 2011, the Authority had spent its entire Public Housing Capital Fund Stimulus Recovery Act funded grant totaling more than \$1 million.

Our objective was to determine whether the Authority followed HUD and Recovery Act requirements. Specifically, we wanted to determine whether the Authority (1) properly obligated and expended its Recovery Act capital funds, (2) accurately reported its Recovery Act activities, and (3) followed Recovery Act requirements when procuring contracts for goods or services.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Properly Report or Support Its Recovery Act Activities

The Authority did not always (1) enter its Recovery Act activities into the Recovery Act Management and Performance System (RAMPS), (2) report its Recovery Act activities by specified deadlines in neither RAMPS nor federalreporting.gov, or (3) enter accurate Recovery Act expenditure information into federalreporting.gov, as required. In addition, the Authority could not justify its reported estimates of jobs created or retained. These conditions occurred because the Authority did not have (1) adequate or experienced staff to perform the reporting function after its deputy director resigned or (2) adequate record-keeping practices. As a result, it provided minimal transparency of and accountability for its Recovery Act activities.

RAMPS Reports Were Not Submitted or Were Not Submitted in a Timely Manner

Section 1609 of the Recovery Act required the Authority to complete environmental reviews and report on the status of its compliance with NEPA in RAMPS no later than January 10, 2010. In addition, HUD required the Authority to report its core activities in RAMPS for all Recovery Act-funded projects and activities. HUD required submission of the core activities to RAMPS no later than the twentieth day at the end of each calendar quarter,³ including information on units of affordable housing developed or modernized using Recovery Act funds as well as data on energy efficiency improvements included in these units.

However, although the Authority submitted its environmental reviews to HUD and obtained environmental clearance for its Recovery Act funded project, it did not report on the status of its compliance with NEPA in RAMPS, as required. In addition, as shown below, of the six required core activities reports, it failed to submit one and submitted the remaining five late.

<i>RAMPS reporting for core activities</i>			
Quarter period	Due date	Submission date	Days late
October-December 2009 (4 th)	January 20, 2010	January 27, 2010	7
January-March 2010 (1 st)	April 20, 2010	April 30, 2010	10
April-June 2010 (2 nd)	July 20, 2010	August 3, 2010	13
July-September 2010 (3 rd)	October 20, 2010	October 31, 2010	11
October-December 2010 (4 th)	January 20, 2011	Not submitted	N/A
January-March 2011 (1 st)	April 20, 2011	May 5, 2010	15

³ Beginning the quarter ending December 31, 2009

**Federalreporting.gov Reports
Were Late, Inaccurate, and Not
Justified**

Section 1512 of the Recovery Act required the Authority to report on the use of its Recovery Act funding, no later than the tenth day after the end of each calendar quarter⁴ in federalreporting.gov, a nationwide data collection system. Required reporting elements included estimates of jobs created or retained and expenditure amounts. Of the seven required federalreporting.gov reports, the Authority submitted one on time and two more than 30 days late. Four did not have a submission date,⁵ as shown below.

<i>Federalreporting.gov</i>			
Quarter period	Due date	Submission date	Days late
July-September 2009 (3 rd)	October 10, 2009	Unable to determine	Unable to determine
October-December 2009 (4 th)	January 10, 2010	Unable to determine	Unable to determine
January-March 2010 (1 st)	April 10, 2010	May 17, 2010	37
April-June 2010 (2 nd)	July 10, 2010	August 3, 2010	33
July-September 2010 (3 rd)	October 10, 2010	October 7, 2010	0
October-December 2010 (4 th)	January 10, 2011	Unable to determine	Unable to determine
January-March 2011 (1 st)	April 10, 2011	Unable to determine	Unable to determine

In addition, the Authority did not accurately report its Recovery Act expenditures for the second and fourth quarters of 2010 as shown below.

<i>Federalreporting.gov</i>			
Quarter period	Actual expenditure amount	Reported expenditure amount	Difference (Underreported) Over reported
July-September 2009 (3 rd)	\$ 0	\$0	\$0
October-December 2009 (4 th)	\$0	\$0	\$0
January-March 2010 (1 st)	\$0	\$0	\$0
April-June 2010 (2 nd)	\$171,000	\$18,000	(\$153,000)
July-September 2010 (3 rd)	\$342,000	\$342,000	\$0
October-December 2010 (4 th)	\$819,000	\$342,000	(\$477,000)
January-March 2011 (1 st)	\$1,012,585	\$1,012,585	\$0

Further, although Office of Management and Budget guidance M-10-08, section 5.2(10), did not establish specific requirements for documentation or other written proof to support reported estimates of jobs created or retained, it stated that the Authority should be prepared to justify its job estimates. However, when asked, the Authority could not support or explain its reported estimates of jobs created or retained⁶ as the former deputy director, who resigned in October 2010, was responsible for the required quarterly reporting⁷ prior to the quarter ending

⁴ Beginning the quarter ending September 30, 2009

⁵ These reports were either not provided by the Authority or obtained in a format that did not include submission dates.

⁶ The Authority began reporting estimates of job created or retained the second quarter ending June 2010; thus, reported estimates for four of seven quarters (quarters ending June 2010, September 2010, December 2010 and March 2011).

⁷ This consisted of five quarters beginning the quarter ending September 30, 2009.

December 31, 2010. Beginning this quarter, the administrative assistant entered the required reports; however, could not support the reported estimates of jobs created or retained. The Authority's contractor acknowledged that the reported figures were not correct.

The Authority Did Not Understand the Reporting Requirements or Keep Adequate Records

The Authority did not understand how to report the grant information. Authority staff stated that it was not aware of the NEPA compliance reporting requirement. Regarding federalreporting.gov, before the administrative assistant began entering the required reports, the former deputy director submitted the reports. However, the Authority was unable to locate the prior reports and related documentation. Moreover, when asked for an explanation of the job estimates, the administrative assistant stated that she used the numbers from the previous reports and was not familiar with the Recovery Act reporting requirements.

Conclusion

Since the Authority did not report its Recovery Act activities accurately or in a timely manner, it provided minimal transparency and accountability.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Field Operations require the Authority to

- 1A. Correct inaccurate Recovery Act expenditure amounts reported in federalreporting.gov for the second and fourth quarters of 2010.
- 2A. Provide a justification for its estimates of jobs created or retained reported in federalreporting.gov for the second, third, and fourth quarters of 2010 and the first quarter of 2011.

Finding 2: The Authority Did Not Amend Its Procurement Policy or Include HUD-Required Provisions in Its Recovery Act Contract

Although the Authority generally procured its Recovery Act contract in accordance with HUD and Recovery Act requirements, it neither amended its procurement policy nor included the required contract provisions. Specifically, the Authority did not amend and label its written procurement policy for use with only Recovery Act grant procurements. In addition, its Recovery Act-funded contract did not include all provisions as required by 24 CFR (Code of Federal Regulations) 85.36. These conditions occurred because the Authority ignored HUD's recommendations to correct the procurement policy and did not have adequately trained staff. As a result, the Authority was at risk, during the Recovery Act funding period, of exposure to disputes over contract selections. Further, by not having the proper contract provisions, the Authority may not have been able to enforce those regulatory provisions with its contractors.

The Authority Generally Procured Its Recovery Act Contract in Accordance With Requirements

The Authority executed one Recovery Act-funded contract, effective February 5, 2010, which required the contractor to perform heating, ventilation, and air conditioning work in 190 units at its C.O. Circle public housing development. When procuring the contract, the Authority generally complied with HUD and Recovery Act requirements, as it (1) used the appropriate procurement method, (2) maintained procurement records sufficient to detail the history of its Recovery Act procurement action, and (3) obtained an independent cost estimate before receiving bids or proposals.

The Authority Did Not Have a Recovery Act Procurement Policy or Include Required Contract Provisions

The Authority did not follow the Recovery Act's procurement requirements when it did not amend and label its written procurement policy for use related to only Recovery Act grant procurements as required by HUD's Office of Public and Indian Housing (PIH) Notice PIH 2009-12. Without the amended policy, HUD still required the Authority to follow 24 CFR 85.36. However, the Authority did not include all contract provisions as required by 24 CFR 85.36, such as the Anti-Kickback⁸ and Contract Work Hours and Safety Standards Acts⁹ requirements.

⁸ 85.36(i)(5)

⁹ 85.36(i)(6)

The Authority Ignored HUD's Recommendation and Lacked Adequately Trained Staff

HUD identified the Authority's lack of compliance with amending its procurement policy for Recovery Act Capital Fund grant procurements during its November 2009 monitoring review. For the corrective action, HUD required the Authority to amend its policy and suggested additional staff training. However, the Authority had not resolved the issue. In addition, the Authority's staff had received no formal training on procurement or Recovery Act requirements.

Conclusion

Because the Authority did not amend its procurement policy, it was at risk, during the Recovery Act funding period, of exposure to disputes over contract selections. Further, by not having the proper contract provisions, the Authority may not have been able to enforce those regulatory provisions with its contractors.

Recommendations

Since the Authority had completed its Recovery Act program, we did not provide recommendations for this finding.

SCOPE AND METHODOLOGY

We conducted our audit at the Authority's office in Lafayette, LA, and the HUD Office of Inspector General (OIG) offices in New Orleans and Baton Rouge, LA. We performed our audit between March and August 2011.

To accomplish our audit objective, we

- Obtained and reviewed relevant laws, regulations, and program guidance relevant to the Recovery Act.
- Interviewed HUD and Authority staff.
- Reviewed the Authority's audited financial statements.
- Reviewed HUD's monitoring reviews of the Authority's Recovery Act activities.
- Reviewed the Authority's annual contributions contract, annual plan, annual statement, and 5-year plan.
- Reviewed the Authority's board meeting minutes.
- Reviewed the Authority's procurement and accounting policies.
- Reviewed the Authority's procurement file regarding its Recovery Act-funded contract.
- Reviewed and analyzed the Authority's obligation and disbursements related to its Recovery Act contractor.
- Conducted site visits.
- Reviewed Recovery Act reporting documentation available.

The Authority executed one Recovery Act-funded contract totaling more than \$1.5 million, of which more than \$1 million was funded with Recovery Act funds. We evaluated whether the Authority procured the contract in accordance with HUD and Recovery Act requirements. We also assessed whether the Authority's obligation under this contract was eligible and properly supported.

In addition, we used the representative, nonstatistical sampling method to review 10 (5 percent) of 190 units to verify that work was underway or completed and that the Authority ensured compliance with the "buy American" Recovery Act requirements. Through site visits, we determined that the unit listing data were generally reliable.

Further, we obtained and reviewed all four (100 percent) payment vouchers totaling more than \$1 million, which were applicable to the Recovery Act expenditures, to determine whether the Authority's Recovery Act disbursements were eligible and supported. Through a file review, we determined that the disbursement data were generally reliable.

Lastly, we reviewed available documentation and the reporting Web sites to determine whether the Authority properly reported its obligations and expenditures to HUD.

Our audit scope covered March 18, 2009, through February 28, 2011. We expanded the scope as needed to accomplish our audit objective. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

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

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

Internal controls comprise 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 objective:

- Controls implemented by the Authority to ensure that Recovery Act (1) obligations and expenditures were eligible and properly supported, (2) activities were accurately and reliably reported, and (3) procurement requirements were followed.

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 lacked sufficient controls to ensure compliance with HUD and Recovery Act procurement and reporting requirements (see findings 1 and 2).

FOLLOW-UP ON PRIOR AUDITS

The Lafayette Parish Housing Authority, Lafayette, LA, Violated HUD Procurement Requirements and Executed Unreasonable and Unnecessary Contracts, 2011-AO-0001

We issued an audit report on the Authority's procurement and contract activities under its public housing program and Disaster Housing Assistance Program (DHAP) in June 2011. The audit found that the Authority neither properly administered its contracting activities, as it violated a number of HUD procurement requirements, nor ensured that its contracts were reasonable and necessary. The Authority also paid its contractors, including its DHAP contractors, (1) outside of specified contract timeframes, (2) in excess of specified contract amounts, and (3) excessive contract increases. As a result, it could not provide reasonable assurance that (1) HUD funds were used effectively and efficiently or (2) more than \$2.9 million in disbursements from its operating and capital funds were spent properly; protected from fraud, waste, and abuse; or used to benefit program participants.

We recommended that HUD's Deputy Assistant Secretary for Field Operations require the Authority to (1) support or repay from non-Federal funds the portion of the more than \$2.9 million in operating or capital funds that it cannot support; (2) modify its procurement policy to reflect applicable State and local laws and regulations and applicable Federal laws; (3) implement additional internal controls related to its procurement and monitoring activities, including maintaining a contract administration system and written code of standards governing the performance of its employees; (4) ensure that its staff attend HUD-approved procurement training, which includes contract administration and oversight; (5) ensure that it maintains adequate levels of competent staff; (6) immediately cease payments to the DHAP accounting specialist working without an executed contract and support or repay any amounts that it cannot support from non-Federal funds for funds disbursed after the contract expired; and (7) remain under HUD receivership for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements.

In addition, we recommended that the Director of HUD's Departmental Enforcement Center take appropriate administrative action, up to and including debarment, against the former deputy director. Lastly, we recommended that HUD's Deputy Assistant Secretary for Field Operations require the Authority to (1) perform a cost or price analysis in connection with every procurement action and (2) review proposed procurements to avoid the purchase of unnecessary or duplicative items.

HUD generally agreed with our audit results and recommendations. As of August 25, 2011, all recommendations remained in open status and in the management decision phase.