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FROM: 
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SUBJECT: The Cambridge, MA, Housing Authority Generally Administered Its Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded Grant in Accordance With Applicable Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Cambridge Housing Authority (Authority) because it obligated a majority of its \$4.4 million Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded grant (grant) received under the American Recovery and Reinvestment Act of 2009 just before the required obligation deadline. Our objective was to determine whether the Authority obligated and disbursed capital funds received under the Recovery Act according to the requirements of the act and applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

The Authority generally administered its grant according to Recovery Act requirements by obligating and disbursing its capital funds according to applicable HUD rules and regulations.

What We Recommend

This report does not contain recommendations.

Auditee's Response

We provided the Authority a draft report on October 25, 2010, and held an exit conference with officials on November 1, 2010. The Authority did not provide formal written comments because the report contained no recommendations and the Authority agreed with our conclusion in the report.

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BACKGROUND AND OBJECTIVES

The Cambridge Housing Authority (Authority) is a governmental entity established under State law in 1935 by the City of Cambridge with a mission to develop and manage affordable housing for the residents of Cambridge, MA. The Authority fulfills that mission by (1) the ownership and management of more than 2,700 units of housing, (2) the administration of more than 2,300 housing choice vouchers, (3) continued development of affordable units, and (4) a wide range of tenant services. The Authority has more than 160 employees and operates with an annual budget of more than \$60 million. A five-member board of commissioners governs the Authority. Four board members are appointed by Cambridge's city manager, and the governor's designee (director of the commonwealth's Department of Housing and Community Development) appoints one board member. One board member also resides in public housing. The board of commissioners hires an executive director to oversee the daily operation of the Authority and ensure that the board's policies are implemented.

The Authority is 1 of 24 housing authorities nationwide participating in the U.S. Department of Housing and Urban Development' (HUD) Moving to Work Demonstration Program (Moving to Work). Moving to Work allows fiscal and regulatory flexibility in the hope of increased efficiency, while encouraging public housing agencies to provide economic incentives and opportunities to residents that foster strong communities and encourage self-sufficiency. During our audit period, the Authority owned and operated 1,917 public housing units under its Moving to Work agreement and an Annual Contributions contract with 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 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 \$4.4 million formula grant. On September 9, 23, and 24, 2009, HUD awarded the Authority \$10 million, \$10 million, and \$1.7 million, respectively, in competitive grants.

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 17, 2010. It is required to expend 100 percent of the grant funds by March 17, 2012. Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act.

The Authority allocated its formula grant to the rehabilitation of public housing units and federalization of 438 State housing units. Grant funds can be used to address deferred maintenance needs, including but not limited to

- Rehabilitation and modernization activities that have been delayed or not undertaken because of insufficient funds;

- 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; and
- Federalization of State housing units to Federal public housing units.

Our overall objective was to determine whether the Authority obligated and disbursed capital funds received under the Recovery Act according to the requirements of the act and applicable HUD rules and regulations. Our specific objectives were to determine whether the Authority (1) obligated its grant funds in a timely manner for eligible projects, (2) maintained support for its obligations and expenditures, and (3) reported its Recovery Act activities properly.

RESULTS OF AUDIT

Finding 1: The Authority Generally Administered Grant Funds in Accordance With Applicable Requirements

The Authority generally administered its grant funds in accordance with the requirements of the Recovery Act and HUD rules and regulations. It used grant funds for eligible activities included in its Moving to Work annual plan and 5-year capital plan, obligated grant funds within the established deadline, received and disbursed grant funds in a timely manner, complied with applicable procurement requirements, and properly reported its Recovery Act activities in accordance with guidance issued by the Office of Management and Budget (OMB).

The Authority Used Grant Funds for Eligible Activities

The Authority selected and funded eligible activities for its capital fund program from its Moving to Work annual plan and 5-year capital 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 activities currently identified in either its annual or 5-year capital plan. The Authority selected activities that were eligible to be funded with its Recovery Act grant. In addition, under the Recovery Act and HUD Notice PIH 2009-12, the Authority was required to obligate 100 percent of its formula grant by March 17, 2010. The Authority obligated 100 percent of its grant by the required deadline.

In addition, the Recovery Act and HUD Notice PIH 2009-12 required the Authority to expend at least 60 percent of the grant by March 17, 2011. The Authority had expended \$301,757 or 7 percent of its formula grant as of June 30, 2010, and is on track to meet the 60 percent expenditure requirement. Finally, the Authority drew down grant funds from HUD's automated Line of Credit Control System when the payments were due and after it had inspected and approved the work. The Authority had maintained adequate documentation to support disbursements such as invoices and approved requests for periodic partial payments.

The Authority Complied With Applicable HUD Procurement Requirements

The Authority followed HUD's procurement regulations to ensure the success of its Public Housing Capital Fund Recovery Act program. For example, it

- Amended its procurement policy, which was approved by its board of commissioners, to ensure that it complied with the requirements of Notice PIH-2009-12.
- Advertised and competitively awarded each contract and had sufficient documentation to support the procurements.
- Received an adequate number of bids to ensure that it awarded contracts competitively as required by 24 CFR (Code of Federal Regulations) 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. The Authority submitted and was granted a waiver for one specific item that could not be procured in America.

The Authority’s Federal Reporting Met Recovery Act Requirements

The Authority complied with all of the reporting requirements by the required deadlines. It complied with and properly reported its obligations, expenditures, and number of jobs created in accordance with guidance issued by OMB.

Two specific provisions in the Recovery Act require quarterly reporting on the part of the Authority. This information must be reported to FederalReporting.gov, a system created and managed by OMB and the Recovery Accountability and Transparency Board. First, section 1512 requires recipients and subrecipients to report on the nature of projects undertaken with Recovery Act funds and the number of jobs created and retained. Second, section 1609 requires agencies to report on the status of compliance with the National Environmental Policy Act (NEPA) for all Recovery Act-funded projects and activities.

To provide this information to the Council on Environmental Quality, HUD requires Recovery Act grantees to complete their environmental reviews in accordance with HUD’s environmental regulations at 24 CFR Part 58 and to enter NEPA compliance information into the Recovery Act Management and Performance System. The Authority complied with these specific requirements.

Conclusion

The Authority generally administered its grant according to Recovery Act requirements and applicable HUD rules and regulations.

Recommendations

Based on the results of this audit, this audit report contains no recommendations.

SCOPE AND METHODOLOGY

We conducted the audit from July through September 2010. Our fieldwork was conducted at the Authority's offices located at 675 Massachusetts Avenue and 166 Prospect Street, Cambridge, MA, and our office located in Boston, MA. Our audit covered the period March 2009 through September 2010 and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Obtained relevant background information;
- Reviewed the Recovery Act and applicable HUD rules, regulation, and guidance;
- Reviewed policies and procedures related to procurement, monitoring/reporting of grant funds, expenditures, and disbursements;
- Reviewed the Authority's fiscal years 2008 and 2009 audited financial statements;
- Conducted interviews with officials for the period July through September 2010 and obtained disbursement data related to Recovery Act-funded capital projects to determine any irregular activity;
- Reviewed relevant monitoring/reporting records, financial records, and procurement records; and
- Conducted onsite reviews of work items completed or to be completed by the Authority at its Washington Elms development where a significant portion of the grant 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 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 over management, financial and operational;
- Controls over expenditures to ensure that they are eligible, necessary, and reasonable;
- Controls over procurements;

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

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 Authority's internal controls.