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Audit Report Number 2011-BO1006
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TO: Donna J. Ayala, Director, Office of Public Housing, Boston Hub, 1APH

FROM:   
John A. Dvorak, Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: The New Bedford Housing Authority, New Bedford, MA, Generally Administered Its Public Housing Capital Fund Stimulus Formula and Competitive Grants( Recovery Act Funded) in Accordance With Applicable Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the New Bedford Housing Authority's (Authority) \$9.9 million of the Public Housing Capital Fund Stimulus Formula and Competitive Grants (Recovery Act Funded).<sup>1</sup> 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**

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<sup>1</sup> \$4.9 million formula and \$5 million competitive

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

### **What We Recommend**

This report does not contain recommendations and no further action is necessary with respect to our report.

### **Auditee's Response**

We provided the Authority a draft report on March 1, 2011, and because it was a no finding report the Authority did not request an exit conference. The Authority did not provide formal written comments because the report contained no recommendations. It agreed with our conclusion in the report.

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## BACKGROUND AND OBJECTIVES

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The New Bedford Housing Authority (Authority) is a governmental entity established under Massachusetts State law 121B, section 3, with a mission to develop and manage affordable housing for the residents of New Bedford, MA. Five commissioners govern the Authority. Four are appointed by the mayor of New Bedford, and one is appointed by the governor of Massachusetts. The board delegates to the executive director direct responsibility for carrying out policies established by the commissioners; hiring, training, and supervising the Authority's staff; and managing day-to-day operations in compliance with Federal and State laws and program directives.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act), which included \$4 billion in capital funds to carry out activities of public housing agencies, as authorized under Section 9 of the United States Housing Act of 1937. The Recovery Act required that \$3 billion of these funds be distributed as Public Housing Capital Fund formula grants and the remainder be distributed through a competitive grant process.

As of December 31, 2010, there were 1,646 Federal public housing units under the Authority's annual contributions contract.<sup>2</sup> The Authority received \$9.9 million<sup>3</sup> in Public Housing Capital Fund formula and competitive grants (Recovery Act Funded) during the period March 18 through September 28, 2009.

The Recovery Act imposed reporting requirements and obligation and expenditure requirements that were more stringent than those imposed on the Authority under its ongoing Public Housing Capital Fund program grants. Under these requirements, the Authority agreed to obligate 100 percent of its formula grant funds by March 17, 2010, and expend 100 percent of the grant funds by March 17, 2012. Transparency and accountability are priorities for funding and implementing the Act.

The Authority received four ARRA Capital Competitive Grant Funds.

MA00780000109e for \$980,000 = Elderly and Disabled > Federalization  
MA00700005009e for \$1,600,000 = Elderly and Disabled > Shawmut Village HCP  
MA00700003009R for \$986,406 = Energy grant > Westlawn  
MA00700001009R for \$1,501,037 = Energy grant > Bay Village

One of the Authority's competitive Recovery Act grants (Federalization) is enabling the Authority to convert 104 Massachusetts State public housing units to Federal subsidized housing units, including the conversion of 7 units to meet handicapped accessibility requirements.

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<sup>2</sup> As of December 31, 2010, the Authority administered 1,646 Federal public housing units at 26 sites and was federalizing 104 State units.

<sup>3</sup> The Authority received \$9.9 million in Recovery Act funding, \$4.9 million in formula and \$5 million in competitive grants.

Our overall objective was to determine whether the Authority obligated and disbursed capital funds (formula and competitive) received under the Recovery Act in accordance with applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations. Our specific objectives were to determine whether the Authority (1) obligated its grant (formula and competitive) funds for eligible projects in a timely manner, (2) complied with applicable procurement requirements, and (3) properly reported its Recovery Act activities.

## RESULTS OF AUDIT

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### The Authority Generally Administered Grant Funds According to 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 identified in either its annual or 5-year capital plan, obligated grant (formula and competitive) funds within the established deadlines, received and disbursed grant funds in a timely manner, complied with procurement requirements, and properly reported its Recovery Act activities in accordance with guidance issued by the Office of Management and Budget (OMB).

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#### **The Authority Used Grant Funds for Eligible Activities**

The Authority selected and funded activities for its capital fund program from its annual plan and 5-year capital plan. Under the Recovery Act, HUD's Office of Public and Indian Housing (PIH) issued Notices PIH 2009-12 and PIH 2010-34, which required the Authority to use grant funds for activities identified in either its annual or 5-year capital plan. The Authority's selected activities were eligible to be funded with its Recovery Act grants.

The Authority was required to obligate 100 percent of its formula grant by March 17, 2010, and competitive grants by September, 2010. It obligated 100 percent of its Recovery Act grants by the required dates.

The Recovery Act and HUD Notice PIH 2009-12 required the Authority to expend at least 60 percent of the grants by March 17, 2011. The Authority had expended \$765,945 or 7 percent of its competitive grants as of December 31, 2010, and appeared to be on track to meet the 60 percent expenditure requirement and expend 100 percent of its Recovery Act formula grant as required.

The Authority drew down grant funds from HUD's automated Line of Credit Control System when the payments were due. It also 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. It amended its procurement policy, and the policy was approved by its board of commissioners to ensure that it complied with the requirements of Notice PIH-2009-12. The Authority received an adequate number of bids to ensure that it competitively awarded Recovery Act contracts as required by 24 CFR (Code of Federal Regulations) 85.36 and HUD Handbook 7460.8, REV-2. All Recovery Act grant change orders had the appropriate approvals and documentation to support the reasons for the changes. In addition, based on our site visit and visual inspection of completed units, we took no exceptions to the Authority's progress to date.

### **The Authority's Federal Reporting Met Recovery Act Requirements**

The Authority complied with all 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](http://FederalReporting.gov), a system created and managed by OMB and the Recovery Accountability and Transparency Board. 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. 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 enter NEPA compliance information into the Recovery Act Management and Performance System. The Authority complied with these specific requirements.

## **Conclusions**

The Authority generally administered its Recovery Act grants according to requirements and applicable HUD rules and regulations. Specifically, the Authority effectively and efficiently administered its formula and competitive Recovery Act programs. Also, its financial and operational, management, and procurement and reporting controls were generally adequate to ensure that (1) all formula and competitive grant funds were obligated in a timely manner, (2) it expended funds within program deadlines, (3) procurement activity was transparent, and (4) it complied with all reporting requirements. Therefore, no reportable deficiencies were identified.

## **Recommendations**

This report does not contain any recommendations, and no further action is needed with respect to this report.



## SCOPE AND METHODOLOGY

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We conducted the audit from December 2010 through February 2011. Our fieldwork was conducted at the Authority's main office located at 134 South Second Street, New Bedford, MA, and its modernization office located at 725 Pleasant Street, New Bedford, MA. Our audit covered the period March 2009 through November 2010 and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Interviewed the Authority's executive director, human resources manager, comptroller, modernization accountant, and director of modernization to determine policies and procedures to be tested;
- Reviewed the Recovery Act and applicable HUD rules, regulations, and guidance;
- Reviewed and tested the Authority's management, accounting, and computer controls over Recovery Act funding to determine whether the Authority had controls in place to safeguard its assets;
- Reviewed policies and procedures related to procurement, monitoring/reporting of grant funds, expenditures, and disbursements to determine data reliability;
- Reviewed the Authority's fiscal years 2008 and 2009 audited financial statements as part of our testing for control weaknesses;
- Conducted interviews with officials for the period March through December 2010 and obtained disbursement data related to Recovery Act-funded capital projects to determine any irregular activity;
- Reviewed and tested relevant monitoring/reporting records, financial records, and procurement records to assess the Authority's controls; and
- Conducted onsite reviews of work items completed or to be completed by the Authority.

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 objective.

# 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:

- Management controls over financial and operational processes;
- Controls over expenditures to ensure that they are eligible, necessary, and reasonable; and
- 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 objective 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 control.