



Issue Date January 31, 2011

Audit Report Number 2011-PH-1006

TO: John E. Tolbert III, Director, Office of Community Planning and Development,
Pittsburgh Field Office, 3ED

//signed//

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

SUBJECT: The City of Pittsburgh, PA, Can Improve Its Administration of Its Community
Development Block Grant Recovery Act Funds

HIGHLIGHTS

What We Audited and Why

We audited the City of Pittsburgh's (City) administration of its Community Development Block Grant (CDBG) funds that it received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We selected the City for audit because it received a \$4.5 million grant, which was the third largest CDBG Recovery Act grant awarded in the State of Pennsylvania and it had disbursed more than half of the grant funds as of July 12, 2010. Our objective was to determine whether the City administered its street resurfacing and neighborhood business and economic development activities funded with Recovery Act funds according to the requirements of the Recovery Act and applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

Although the City generally administered its street resurfacing and neighborhood business and economic development activities funded with Recovery Act funds according to the requirements of the Recovery Act and applicable HUD rules and

regulations, it can improve its administration of the funds. The City (1) did not comply with HUD guidance for implementing the “buy American” provision of the Recovery Act, (2) could not demonstrate that jobs created in part by \$400,000 in loaned funds benefitted or will benefit low- and moderate-income persons, (3) did not include a statement of work in its subrecipient agreement with the Urban Redevelopment Authority (Redevelopment Authority), and (4) did not accurately enter the number of jobs created or retained into the Federal reporting Web site.

What We Recommend

We recommend that HUD require the City to (1) develop and implement controls to ensure that a “buy American” provision is included in requests for applications or proposals, subrecipient agreements, bidding documents, and contracts funded with Recovery Act funds; (2) provide documentation to demonstrate that \$400,000 loaned to two companies will comply with national objective criteria and benefit low- and moderate-income persons; (3) amend its subrecipient agreement with the Redevelopment Authority to include a specific description of the work to be performed, a schedule for completing the work, and a detailed budget; and (4) develop and implement controls to ensure that Recovery Act job creation data it enters into the Federal reporting Web site are accurate.

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 a draft audit report to the City on January 12, 2011, and discussed it with the City at an exit conference on January 18, 2011. The City provided written comments to the draft report on January 24, 2011. It agreed with the conclusions and recommendations in the report. The complete text of the City’s response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). The purpose of the Recovery Act was to jumpstart the Nation's ailing economy, with a primary focus on creating and saving jobs in the near term and investing in infrastructure that will provide long-term economic benefits. This legislation included a \$1 billion appropriation of community development funds to carry out Community Development Block Grant (CDBG) programs as authorized under Title 1 of the Housing and Community Development Act of 1974.

The City of Pittsburgh, PA (City), is a CDBG program entitlement grantee. The U.S. Department of Housing and Urban Development (HUD) annually awards grants to entitlement community grantees to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. The City manages its community development programs through its Department of City Planning. The Department of City Planning pursues community development by facilitating community planning processes, supporting community-based and technical assistance organizations and programs, and administering CDBG funds.

The Urban Redevelopment Authority (Redevelopment Authority) is a subrecipient of the City's CDBG funds. It administers economic development loans on behalf of the City. The loans provide capital and stimulate growth for new and growing businesses in Pittsburgh.

On July 17, 2009, the City received a \$4.5 million grant of CDBG funds under the Recovery Act. The City planned to use the grant funds on the following nine activities:

Activity	Amount obligated
Street resurfacing	\$1,350,000
Neighborhood business and economic development	1,000,000
Bridge repairs	657,500
Wall, step, and fence	540,000
Capital equipment purchase	478,251
Neighborhood street improvement	190,000
Disabled and public sidewalk	137,500
Slope failure remediation	75,000
Police zone renovation	50,000
Total	\$4,478,251

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients. For example, the City was required to obligate 100 percent of its CDBG Recovery Act funds by September 30, 2011, and it was required to expend 100 percent of these funds by September 30, 2012. As of August 2010, the City had

obligated \$2.5 million (56 percent) of its grant and expended \$2.4 million (53 percent) of it. Transparency and accountability were also critical priorities in the funding and implementation of the Recovery Act.

Our objective was to determine whether the City administered its street resurfacing and neighborhood business and economic development activities funded with Recovery Act funds according to the requirements of the Recovery Act and applicable HUD rules and regulations.

RESULTS OF AUDIT

Finding: The City Can Improve Its Administration of Its Community Development Block Grant Recovery Act Funds

Although the City generally administered Recovery Act grant funds for its street resurfacing and neighborhood business and economic development activities in accordance with the requirements of the Recovery Act and HUD rules and regulations, it can improve its administration of the funds. It did not (1) comply with HUD guidance for implementing the “buy American” provision of the Recovery Act, (2) maintain documentation to demonstrate that jobs created in part with \$400,000 loaned to two companies benefitted or would benefit low- and moderate-income persons, (3) include a statement of work in its subrecipient agreement with the Redevelopment Authority, and (4) accurately enter the number of jobs created or retained into the Federal reporting Web site. This condition occurred because the City (1) overlooked guidance to include the “buy American” provision in its street resurfacing contracts and the subrecipient agreement with the Redevelopment Authority, (2) was waiting to obtain documentation to demonstrate that loaned funds benefitted low-and moderate-income persons, (3) was unaware of HUD requirements for subrecipient agreements, and (4) was uncertain of how to report job creation information for neighborhood business and economic development loans. By improving its administration of these Recovery Act funds, the City will increase its assurance that the funds are being used and reported in accordance with applicable Recovery Act and HUD requirements.

The City Submitted an Amended Action Plan as Required

In June 2009, the City submitted a substantial amendment to its fiscal year 2008 annual action plan as required. The annual action plan outlines the activities the City will undertake using the CDBG funds it received. The substantial amendment to the fiscal year 2008 annual action plan was required to record the activities the City planned to undertake using its CDBG Recovery Act funds. All of the activities that the City included in its amended action plan were eligible to be funded with its Recovery Act grant, including street resurfacing and neighborhood business and economic development activities. The following pictures show some of the work completed by the City with its Recovery Act funds.



Resurfacing of Ashley Street (completed)



Resurfacing of South 19th Street (completed)

**The City Generally Complied
With Procurement
Requirements**

The City generally followed HUD procurement regulations and guidance. We reviewed two street resurfacing contracts valued at \$780,000 and found that the City

- Received an adequate number of bids to ensure that it awarded contracts competitively as required by 24 CFR (Code of Federal Regulations) 85.36.

The City advertised and competitively awarded each contract and had sufficient documentation to support the procurement.

- Ensured that contractors complied with Davis-Bacon Act requirements. The Recovery Act required that all laborers and mechanics be paid in accordance with the prevailing wage rates in accordance with the Davis-Bacon Act. HUD Handbook 1344.1, REV-1, required the City to perform wage interviews, review contractors' weekly payrolls, and ensure that the required Davis-Bacon Act poster and pertinent wage rates were posted in a common area at the job site.

However, it did not comply with HUD guidance for implementing the “buy American” requirement of the Recovery Act. Under the Recovery Act, HUD’s Office of Community Planning and Development (CPD) issued Notice CPD-09-05, which required grant recipients to place a provision requiring compliance with the “buy American”¹ requirement in requests for applications or proposals, subrecipient agreements, bidding documents, and contracts for the assisted activity/project. The City did not include the provision in its street resurfacing contracts and its subrecipient agreement with the Redevelopment Authority. However, due to the nature of the street resurfacing work, there was no impact as a result of the City’s noncompliance with the requirement. Conversely, the Redevelopment Authority did not include the provision in its loan agreements. As a result, due to the omission, there was no assurance that the companies receiving loans complied with the requirement.

The City Could Not Demonstrate Compliance With National Objective Criteria

Neither the City nor its subrecipient could demonstrate that funds loaned to two companies resulted in or would result in jobs for low- and moderate-income persons. The City provided \$1 million in Recovery Act funds to the Redevelopment Authority for the neighborhood business and economic development activity. The Redevelopment Authority planned to make loans to at least eight companies with the funds to continue the City’s small business loan fund. We reviewed two loans the Redevelopment Authority made for \$200,000 each. Neither the City nor the Redevelopment Authority could demonstrate that the jobs the companies created benefitted or would benefit low- and moderate-income persons, contrary to the loan agreements that the companies signed with the Redevelopment Authority. Moreover, regulations at 24 CFR 570.208(a)(4)(i) require that for an activity designed to create or retain permanent jobs in which at least 51 percent of the jobs involve the employment of low- and moderate-income

¹ For Recovery Act-funded CDBG programs, the “buy American” requirement applies to eligible activities for the construction, alteration, repair, or maintenance of public buildings or public works. For these activities with some exception, all of the iron, steel, and manufactured goods used in the project must be produced in the United States.

persons, the recipient must document that at least 51 percent of the jobs would be held by or made available to low- and moderate-income persons. Since neither the City nor the Redevelopment Authority could demonstrate compliance with the documentation requirement, we consider the \$400,000 value of the two loans unsupported.

The City's Subrecipient Agreement With the Redevelopment Authority Did Not Comply With Requirements

The City's August 2008 subrecipient agreement with the Redevelopment Authority, which was amended on November 9, 2009, to include an additional \$1 million in Recovery Act funds for neighborhood business and economic development, did not include a specific description of the work to be performed, a schedule for completing the work, or a detailed budget. Regulations at 24 CFR 570.503 require subrecipient agreements to include a statement of work that includes a description of the work to be performed, a schedule for completing the work, and a budget. The regulations also provide that the statement of work should be sufficiently detailed to provide a sound basis for the recipient to effectively monitor the performance under the agreement. Without these elements in the subrecipient agreement, the City cannot effectively monitor the Redevelopment Authority. The City indicated that it was not aware of these requirements.

The City Did Not Report Accurate Job Creation Information

The City did not accurately report the number of jobs created or retained as a result of its Recovery Act activities.² For the reporting periods ending March 31, 2010, and June 30, 2010, the City reported 11.5 jobs created. The 11.5 jobs created were related to the City's street resurfacing activity. The City did not report any jobs created or retained as a result of its neighborhood business and economic development activity, although one of the companies that received a loan using Recovery Act funds created four jobs during the period ending June 30, 2010. The City was unsure of how to report job creation information through its neighborhood business and economic development activity so as a result, did not report any information. The City acknowledged that some jobs should have been reported. Also, the City could not adequately justify its

² Grant recipients are required to report spending and performance data, including estimates of the number of jobs created and retained, to the Federal reporting Web site, www.recovery.gov.

estimate of jobs created for two contractors involved with the street resurfacing activity. The City claimed that the contractors did not use time sheets, and, therefore, it made a best guess estimate of the number of jobs created. The City did not go back to the contractors to request information, such as payroll information, to support its job creation estimate. Office of Management and Budget Memorandum M-09-21 states that data quality is an important responsibility of key stakeholders identified in the Recovery Act. The City, as the owner of the data submitted, has the principal responsibility for the quality of the information submitted. In an effort to meet the Recovery Act goal of achieving unprecedented levels of accountability and transparency in government spending, the City needs to develop and implement controls to ensure that Recovery Act job creation data it enters into the Federal reporting Web site are accurate.

Conclusion

Although the City generally administered Recovery Act grant funds for its street resurfacing and neighborhood business and economic development activities in accordance with applicable requirements, it can improve its administration of the funds. The City needs to (1) develop and implement controls to ensure that a “buy American” provision is included in requests for applications or proposals, subrecipient agreements, bidding documents, and contracts funded with Recovery Act funds; (2) provide documentation to demonstrate that \$400,000 loaned to two companies will comply with national objective criteria and benefit low- and moderate-income persons; (3) amend its subrecipient agreement with the Redevelopment Authority to include a specific description of the work to be performed, a schedule for completing the work, and a detailed budget; and (4) develop and implement controls to ensure that Recovery Act job creation data it enters into the Federal reporting Web site are accurate. By making these improvements, the City will increase its assurance that Recovery Act funds are being used and reported in accordance with applicable Recovery Act and HUD requirements.

Recommendations

We recommend that the Director of HUD’s Pittsburgh Office of Community Planning and Development require the City to

- 1A. Develop and implement controls to ensure that a “buy American” provision is included in requests for applications or proposals, subrecipient agreements, bidding documents, and contracts funded with Recovery Act funds.
- 1B. Provide documentation to demonstrate that \$400,000 loaned to two companies will comply with national objective criteria and benefit low- and moderate-income persons.

- 1C. Amend its subrecipient agreement with the Redevelopment Authority to include a specific description of the work to be performed, a schedule for completing the work, and a detailed budget.
- 1D. Develop and implement controls to ensure that Recovery Act job creation data it enters into the Federal reporting Web site are accurate.

We also recommend that the Director of HUD's Pittsburgh Office of Community Planning and Development

- 1E. Provide technical assistance to the City regarding entering job creation information into the Federal reporting Web site.

SCOPE AND METHODOLOGY

We conducted the audit from August through November 2010 at the City's offices located at 200 Ross Street, Pittsburgh, PA, and our office located in Pittsburgh, PA. The audit covered the period February 2009 through September 2010 but was expanded when necessary to include other periods.

To achieve our audit objective, we

- Obtained relevant background information;
- Reviewed the Recovery Act;
- Reviewed Office of Management and Budget guidance for implementing the Recovery Act;
- Reviewed applicable HUD rules, regulations, and guidance;
- Reviewed the City's policies and procedures related to procurement, monitoring/reporting of grant funds, expenditures, and disbursements;
- Reviewed the City's fiscal year 2007 and 2008 audited financial statements;
- Interviewed relevant City staff;
- Interviewed officials from HUD's Pittsburgh Office of Community Planning and Development;
- Reviewed relevant subrecipient agreements, monitoring/reporting records, financial records, and procurement records; and
- Physically inspected and photographed four streets that the City resurfaced using grant funds.

We audited two activities—street resurfacing and neighborhood business and economic development—from the nine activities for which the City planned to use its grant funds. We selected these activities for review because the \$2.4 million the City obligated to them represented 53 percent of the \$4.5 million grant and as of August 2010, the City had expended \$2.2 million of the \$2.4 million. We nonstatistically selected for detailed review the two largest street resurfacing contracts with a combined value of \$780,000 (of the \$1.4 million obligated for this activity) and two of four neighborhood business and economic development loans valued at \$200,000 each for a combined value of \$400,000 (of the \$1 million obligated for this activity).

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 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:

- Policies and procedures that the City implemented to ensure that activities met established program objectives and requirements.
- Policies and procedures that the City implemented to ensure that resource use was consistent with applicable laws and regulations.

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 City's internal control.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported ^{1/}
1B	\$ 400,000

- ^{1/} Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS



CITY OF PITTSBURGH

Mayor Luke Ravenstahl

*Noor Ismail, AICP
City Planning Director*

January 21, 2011

John P. Buck
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building
100 Penn Square East, Suite 10205
Philadelphia, Pa. 19107-3380

Re: Draft Audit Report, Subject: The City of Pittsburgh, PA, Can Improve Its Administration of Its Community Development Block Grant Recovery Act Funds

Dear Mr. Buck:

The City of Pittsburgh is in receipt of the draft audit report concerning Community Development Block Grant funds that the City received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We have reviewed the audit report and are providing the following written comments to the report's conclusions and recommendations.

1A. We agree the City did not comply with HUD guidance for implementing the "buy American" provision of the Recovery Act.

We concur with this recommendation. The City has two contracts that have not been executed. We plan to include the Buy American Provisions of the American Recovery and Reinvestment Act as soon as the contracts are prepared.

1B. We agree that the City did not maintain documentation to demonstrate that jobs created in part with \$400,000 loaned to two companies benefitted or would benefit low- and moderate income persons.

We concur with the recommendation. The Urban Redevelopment Authority of Pittsburgh (the City's subrecipient) verifies low and moderate income job creation and retention with borrowers. The information requested includes employee name,

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address, race, total hours worked per week, and low and moderate household income information.

In turn, the URA staff verifies that the household income of the individuals hired or retained falls within the current HUD low and moderate household income limits. Also, the weekly hours are calculated to determine the full-time job equivalent by URA staff. The borrower job verification process will be repeated until the job requirement is satisfied. Documentation received from each borrower will be maintained in each URA file. We will provide copies of the documentation for the two companies receiving the loans to our local HUD Office for their review.

1C. We agree that the City did not include a statement of work in its subrecipient agreement with the Redevelopment Authority.

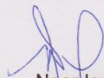
We concur with this recommendation. A draft copy of the statement of work has been completed and will be submitted to the HUD local office with our response.

1D. We agree that the City did not accurately enter the number of jobs created or retained into the Federal Reporting Web site.

We concur with this recommendation. The City is now requesting certified payrolls from the contractors which contain name of worker, hours worked along with the date. The jobs data is then put into a spreadsheet and prepared for input into the quarterly report on Federal Reporting.gov. A copy of the most recent invoices will be submitted for review with our response.

If you have any questions, please contact Richard Bellisario, Assistant Planning Director for Community Development at (412) 255-2211.

Sincerely,



Noor Ismail, AICP
Planning Director