



Issue Date July 21, 2011

Audit Report Number 2011-AT-1013

TO: Michael A. Williams, Director, Office of Public Housing, Greensboro, NC,
4FPH

FROM: //signed//
James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Greensboro Housing Authority Needs To Improve Internal Controls for
Administering Recovery Act Funds

HIGHLIGHTS

What We Audited and Why

We audited the Greensboro Housing Authority (Authority) as part of our annual plan to review public housing capital funds awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Authority received a \$5.6 million Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant, the second highest in the State. It also received a Recovery Act funded \$1.05 million capital fund competitive grant for addressing the needs of the elderly and persons with disabilities.

Our overall objective was to determine whether the Authority obligated and disbursed capital funds 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) properly obligated funds, (2) complied with applicable procurement requirements, (3) properly drew down and expended funds for eligible activities, and (4) properly reported its Recovery Act activities.

What We Found

Although the Authority used its Recovery Act funds for eligible activities and complied with most program requirements, it had several deficiencies with regard to obligations, procurement, expenditures, and reporting. These deficiencies occurred due to staff errors and insufficient internal controls for some functions. As a result, the Authority could not support the eligibility of \$741,848 in obligations, contracts, and expenditures, and its reporting for Recovery Act activities contained errors.

What We Recommend

We recommend that the Director of the Greensboro Office of Public Housing require the Authority to develop, implement, and enforce written procedures for its procurement, Recovery Act reporting, and obligations. The Authority must also provide support showing that \$459,499 in contracts was awarded in accordance with procurement regulations and that \$66,730 in obligations and \$215,619 in expenditures met HUD's requirements.

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 draft report to the Authority on June 2, 2011, and discussed the findings with Authority officials at an exit conference on June 23, 2011. The Authority provided its written comments on June 15, 2011, prior to the exit conference. The Authority's written comments expressed general disagreement with the report. However, as detailed in Appendix B, we were successful in resolving several areas of disagreement at the exit conference.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. Attachments to the Authority's comments were not included in the report due to their volume, but are available for your review upon request.

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BACKGROUND AND OBJECTIVES

The Greensboro Housing Authority (Authority) was established in 1941 pursuant to the North Carolina Housing Authorities Law. Its primary mission is to provide safe, quality, affordable housing to low-income families, the elderly, and the disabled in the Greensboro community; to maintain a secure community environment; and to encourage personal responsibility and upward mobility of residents while maintaining the fiscal integrity of the agency. The Authority is governed by a seven-member board of commissioners appointed by the mayor of Greensboro. Its records are located at 450 North Church Street, Greensboro, NC.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) into law. The Recovery Act provided an additional \$4 billion for public housing agencies to carry out capital and management activities, including modernization and development of public housing. It allocated \$3 billion for formula grants and \$1 billion for competitive grants. The Recovery Act required public housing agencies to obligate 100 percent of the funds within 1 year of the date on which funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of such date.

In addition to an annual capital fund allocation of \$4.06 million for 2009, HUD awarded the Authority a \$5.6 million Public Housing Capital Fund Stimulus (formula) Recovery Act Funded grant on March 18, 2009, and a Recovery Act funded \$1.05 million capital fund competitive grant for addressing the needs of the elderly and persons with disabilities on September 28, 2009. HUD approved the Authority's planned use of the formula grant to include the modernization of a 250-unit development, the construction of a Born Learning Trail, and the construction of a new community center at the development. The competitive grant was awarded for the modernization of three units to make them compliant with uniform Federal accessibility standards, and for the construction of a community center for the residents of one of its senior developments.

HUD required the Authority to use its Recovery Act grant on eligible activities already identified in either its annual statement or Five-Year Action Plan (action plan). The HUD-approved comprehensive plan¹ sets forth all of the Authority's physical and management improvement needs for its public housing developments and must demonstrate long-term physical and social viability of proposed projects, including cost reasonableness. If the Authority decided to undertake work items not in its approved plans, HUD required it to amend its approved plans.

The Line of Credit Control System (LOCCS) is the system HUD uses to disburse and track the payment of grant funds to Grant recipients. The requested payment amount is checked against the grant's available balance in LOCCS to ensure that the request does not exceed the grant's authorized funding limit.

Our overall objective was to determine whether the Authority obligated and disbursed capital funds 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

¹ The annual statement, annual plan, and action plan were all components of the Authority's comprehensive plan.

determine whether the Authority (1) properly obligated funds, (2) complied with applicable procurement requirements, (3) properly drew down and expended funds for eligible activities, and (4) properly reported its Recovery Act activities.

RESULTS OF AUDIT

Finding: The Authority's Internal Controls Had Several Deficiencies

The Authority needs to improve internal controls for administering Recovery Act funds. Although the Authority used its funds for eligible activities and complied with most program requirements, it had several deficiencies with regard to obligations, procurement, expenditures, and reporting. These deficiencies occurred due to staff errors and the lack of adequate written procedures for some functions. As a result, the Authority could not support the eligibility of \$741,848 in obligations, contracts, and expenditures, and its reporting for Recovery Act activities contained inaccurate information.

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.

As of May 5, 2011, the Authority had obligated 100 percent of the Recovery Act funds and spent more than \$4.5 million (about 82 percent) of the formula grant and \$696,751 (about 66 percent) of the competitive grant.

We conducted site visits to both properties benefiting from the Recovery Act funds to determine whether work was conducted as contracted and expended. We confirmed that all work appeared reasonable with respect to the amount of expenditures incurred.

Some Obligations Were Not Adequately Supported

We reviewed a sample of 11 of 33 contracts and purchase orders totaling more than \$3.2 million to determine whether obligations were eligible and supported. Although review of supporting documentation for the obligations determined that more than \$3.1 million was eligible and supported, three obligations totaling \$90,362 were not supported. During the review, the Authority worked with HUD and corrected one of the obligations. The remaining obligations, totaling \$66,730, were obligated to an incorrect budget line item. For example, a pending purchase

of appliances that were to be used in dwelling units was obligated to non-dwelling equipment.

Although the Authority obligated its funds by the Recovery Act deadlines, some of its interim reporting in HUD's Line of Credit Control System (LOCCS) either overstated or understated total obligations. For example, \$75,122 in obligations reported in LOCCS for April 2010 for the competitive grant was overstated by \$21,000 due to undetected errors made by Authority staff. Although Authority staff was able to describe the process for obligating funds, the process was not documented with adequate written procedures such as procedures requiring the retention of documentation supporting the obligations.

The Authority Did Not Always Follow Procurement Requirements

We reviewed 6 of the Authority's 11 Recovery Act contracts and purchase orders to determine whether the Authority complied with applicable requirements in 24 CFR (Code of Federal Regulations) 85.36 and its own policies and procedures. The Authority made several errors when procuring two architect and engineering services contracts and did not support the cost analysis for some change orders. As a result, it could not provide assurance that \$459,499² was awarded to the vendor whose proposal represented the best overall value to the Authority or that contract modification costs were always reasonable.

The Authority accomplished the procurements of two architect and engineering services contracts using standard requests for proposal, which included price as an evaluation factor. Although this procurement method was permitted by the Authority's Recovery Act procurement policy, the staff did not follow all requirements. Authority staff did not prepare a cost estimate in accordance with the regulations (24 CFR 85.36 (f)(1)) and the Authority had not established procedures for carrying out evaluations of price or other competitive procurement evaluation factors.

In addition to the required cost analysis for contracts, the procurement regulations (24 CFR 85.36(f)(1)) required the Authority to perform a cost or price analysis for contract modifications (change orders). Although the Authority had procedures for change orders and had completed cost analyses forms for the change orders we reviewed for four contracts, none of the analyses showed how the Authority determined that the prices were reasonable. There was no documentation showing how historical data or other means were used to verify that the costs quoted by the vendor were appropriate.

² The contract total includes both Recovery Act and non-Recovery Act funds - \$122,565 was charged to the Authority's annual capital fund grant.

Some Fund Drawdowns Contained Errors

We reviewed 14 of 50 LOCCS drawdowns of Recovery Act funds to test for eligibility and accuracy of expenditures. The drawdowns were all for eligible expenses; however, three drawdowns (one formula grant and two competitive grant) totaling \$215,619 were drawn against the wrong budget line items due to staff errors. Authority staff stated that some charges for construction were not separated and charged to the correct line items due to the small size of the competitive grant. Some funds were drawn against site improvement for work that should have been charged to dwelling structures, and the purchase of blinds and printers was charged against non-dwelling structures instead of non-dwelling equipment.

The Authority's Quarterly Reports Contained Errors

To comply with the transparency and accountability requirements of the Recovery Act, recipients of funds are required to make quarterly reports³ on the Internet (FederalReporting.gov). They are to report the nature and status of their projects and number of jobs created and retained. In addition, a directive from HUD's Office of Field Operations dated December 31, 2009, required housing authorities to submit quarterly information to its Recovery Act Management and Performance System to capture information at the project level. We reviewed the Authority's fourth quarter (October-December 2010) submissions to each of these systems for accuracy, timeliness, and completeness.

The Authority's quarterly reporting was generally timely and complete, but the information submitted was not always accurate or sufficiently supported. For example, the construction status submitted for the competitive grant stated that the general contractor was 57 percent complete, although the Authority's supporting documentation showed that it was only 25 percent complete. In its comments to the draft report, Authority management stated that staff had provided us incorrect supporting documentation during the review. Information from the general contractor submitted with the comments showed that the project was 57 percent complete as the Authority reported.

The Authority was also unable to provide support for the "job creation" numbers reported. OMB (Office of Management and Budget) Memorandum M-10-08 outlined how "jobs created" should be calculated. The formula was intended to prevent over counting of short-term or part-time jobs. Authority staff informed us that the 50 jobs reported for the competitive grant were provided to them verbally by the contractor and that there was no supporting documentation. The Authority

³ American Recovery and Reinvestment Act of 2009, Section 1512 (c)

had limited documentation for formula grant jobs created, but it did not support the 47 jobs reported. Although the OMB guidance did not establish specific requirements for supporting reported estimates for jobs created or retained, recipients should be prepared to justify their estimates.

Conclusion

The Authority could not provide assurance that \$459,499 in contracts was awarded in accordance with procurement regulations or that \$66,730 in obligations and \$215,619 in expenditures met HUD's requirements. In addition, the required Recovery Act reporting contained errors. These deficiencies occurred due to staff errors and a lack of sufficient written policies and procedures. HUD must ensure that the Authority develops and implements adequate written policies and procedures to ensure that it will meet all requirements outlined by HUD and the Recovery Act.

Recommendations

We recommend that the Director of HUD's Greensboro, NC, Office of Public Housing require the Authority to

- 1A. Develop, implement, and enforce adequate written grant policies, which include procedures for maintaining obligation documentation and coding of obligations to the appropriate budget line item, to ensure that the Recovery Act funds are properly obligated and supported.
- 1B. Provide supporting documentation showing that the \$66,730 in obligations was charged to the appropriate budget line item on the Recovery Act annual statements. Any amounts determined to be ineligible should be reimbursed to the Authority's Recovery Act account from non-Federal funds.
- 1C. Develop, implement, and enforce written procedures to ensure effective performance and compliance with Federal procurement regulations and to ensure proper use of all Recovery Act funds.
- 1D. Provide supporting documentation to support that \$459,499 or the current contract amounts were awarded to the proposal that represented the best overall value to the Authority. Any expended amounts determined to be ineligible should be reimbursed to the appropriate account from non-Federal funds.
- 1E. Provide supporting documentation such as revised Recovery Act annual statements and financial system adjusting entries to show that the \$215,619 in

expenses was adjusted as necessary and charged against the correct budget line items. The HUD Greensboro Office of Public Housing will use the supporting documents to make the needed corrections in LOCCS. Any amounts determined to be ineligible should be reimbursed to the Authority's Recovery Act account from non-Federal funds.

- 1F. Certify that appropriate staff is aware of procedures established for reporting the quarterly updates as required by the Recovery Act and HUD to ensure that accurate and supported information is submitted.

SCOPE AND METHODOLOGY

Our overall objective was to determine whether the Authority obligated and disbursed capital funds received under the Recovery Act in accordance with applicable HUD rules and regulations. Our specific objectives were to determine whether the Authority (1) properly obligated funds, (2) complied with applicable procurement requirements, (3) properly drew down and expended funds for eligible activities, and (4) properly reported its Recovery Act activities.

To accomplish our objectives, we reviewed

- The Recovery Act, Federal financial management and procurement regulations at 24 CFR 85.20 and 85.36, capital fund program regulations at 24 CFR 85.905, OMB Memorandum M-10-08, the notice of funding availability for the capital fund recovery competition grants, the Comprehensive Grant Guidebook on capital fund grants, HUD guidance on the use of capital funds authorized by the Recovery Act, HUD's amended annual contributions contract with the Authority, and HUD's Greensboro Office of Public Housing's correspondence and files pertaining to the Authority.
- The Authority's policies and procedures manuals, planned use of the capital funds authorized by the Recovery Act, Recovery Act budgets, obligations, and reimbursements from LOCCS, contracts that the Authority identified as awarded for Recovery Act capital funds grants, and organizational charts.

We interviewed Authority employees and HUD's Greensboro staff involved with oversight of the Authority's program. We selected several nonstatistical samples as described below. The results from these samples pertain only to the items sampled and can not be projected to the universe as a whole.

We conducted site visits to both properties benefitting from Recovery Act funds to determine whether work was conducted as contracted and whether all work appeared reasonable with respect to the amount of expenditures incurred.

We selected a nonstatistical sample of 11 contracts and purchase orders totaling \$3,236,741 from a universe of 33 contracts totaling \$6,637,183 obligated with Recovery Act formula or competitive funds. We selected the contracts and purchase orders in a manner that ensured that each budget line item was represented. We evaluated the obligations to determine whether they were appropriate, prudent, eligible, and supported.

We selected 6 Recovery Act procurements totaling \$5,666,826 from a universe of 11 totaling \$5,953,450 to determine whether the Authority complied with applicable Federal requirements in 24 CFR 85.36 and the Authority's own policies and procedures. The nonstatistical sample was selected to ensure that procurements from each category (small purchase, sealed bids, competitive proposal) were chosen.

Using a random number generator, we selected a random sample of 14 LOCCS drawdowns totaling \$932,595 from a universe of 50 totaling \$4,720,998 in order to test for eligibility and accuracy of the expenditures paid.

We reviewed the Authority's fourth quarter reports and all supporting documentation submitted to FederalReporting.gov and HUD's Recovery Act Management and Performance System to determine whether information reported was timely, accurate, and complete.

All electronic data relied upon during the review were tested during the performance of the various review steps. We conducted tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objectives. The tests included, but were not limited to, comparisons of computer-processed data to invoices and other supporting documentation. We found the electronic data to be reliable.

We performed our onsite work from February through April 2011 at the Authority's office located at 450 North Church Street, Greensboro, NC. The audit covered the period March 2009 through January 2011 and was expanded as determined necessary.

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 program operations
- Controls over compliance with 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

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

- The Authority's controls over the obligation, procurement, expenditure, and reporting process did not ensure that the Recovery Act funds were used as required (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported 1/</u>
1B	\$ 66,730
1D	459,499
1E	215,619
Total	<u>\$741,848</u>

- 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 AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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450 North Church Street
Post Office Box 21287
Greensboro, North Carolina 27420-1287
Telephone 336-275-8501

Hearing Impaired
336-271-3319

Office
Executive Director

June 15, 2011

Mr. James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA
U.S. Department of Housing and Urban Development
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay,

This letter is in response to your request for Greensboro Housing Authority's comments on the draft audit report of the funds awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act); i.e. the Public Housing Capital Fund Stimulus (formula) Recovery Act Funded Grant and the Capital Fund Competitive Grant for addressing the needs of the elderly and persons with disabilities which was a result of an onsite audit conducted February 2011 through April 2011.

The U.S. Department of Housing and Urban Development/Office of the Inspector General reviewed both grants simultaneously and combined their responses for each grant into one final report, not specifying to which specific grant the comments or dollar amounts apply. We understand that some general comments were specific to both grants, but the combined responses made it difficult for our agency to determine whether the comments and amounts in question are relating to the Public Housing Capital Fund Stimulus or the Capital Fund Competitive Grant. We hope that our comments will assist in your review of multiple grants for other agencies.

Attached are the detailed Audit Response and supporting documentation to the draft conclusions outlined in the report.

Please contact me if there are any questions. I can be reached at 336-303-3116.

Sincerely,

A handwritten signature in blue ink that reads "Tina Akers Brown".

Tina Akers Brown
Chief Executive Officer

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Comment 1

GREENSBORO HOUSING AUTHORITY

Response to the U.S. Department of Housing and Urban Development Office of the Inspector General's Audit of the Capital Funds Received from the American Recovery and Reinvestment Act of 2009

- Public Housing Capital Fund Stimulus (formula) Recovery Act Funded Grant - \$5.6 Million
- Capital Fund Competitive Grant for Addressing the Needs of the Elderly and Persons with Disabilities - \$1.05 million

Comment 2

OIG Assertion: The Authority used grant funds for eligible activities.

Greensboro Housing Authority (Authority) concurs and agrees that the selected and funded activities for which the grant funds were used were eligible activities to be funded with Recovery Act grants.

OIG Assertion: Some obligations were not adequately supported.

The Authority disagrees that three obligations totaling \$144,908 were not adequately supported. All dollar amounts reported as obligated either through LOCCS or on quarterly reports submitted by the Authority were adequately supported by existing contracts or purchase orders entered in to by the Authority. It is not clear to the Authority what specifically makes up the \$66,730 referenced as being obligated to the incorrect budget line item or even which grant these obligations concern since this information has not been provided by OIG, but it is assumed that these were amounts contained within the general contractor's invoices. On the invoices for the competitive grant (exhibit 1), the general contractor did not separate his costs into line items that could be easily placed into site improvements, dwelling structures and non dwelling structures, but rather included line items that were descriptive of the type of work performed, i.e. masonry, plumbing, electrical, etc. The general contractor's invoices for the formula grant (exhibit 2) were broken out by the corresponding ARRA line items. As a result, at the time of obligation, an estimate was made based on information provided by the contractor as to the division among the ARRA budget line items.

24 CFR 85.3 States that "obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given time period that will require payment by the grantee during the same or a future period." The intent for requiring the reporting of obligations is so that HUD can monitor the grantees progress and ensure that the funds will be obligated and expended in compliance with the timeframes defined in PIH 2010-34. The obligations reported by the Authority relative to the construction contract with the general contractor were correctly stated in total and meet the definition of "obligation" as defined by the statute. The Authority concurs that the various line items that the obligations are charged to may not be one hundred percent correct throughout the construction period but by the time the final payments are made the actual application of costs will be analyzed and any necessary adjustments between line items made. Regardless of which line item the obligation relates to the authority correctly reported its obligations in a manner that allowed HUD to ensure the grantee's compliance with the timelines required. *Nonetheless, at no time did or will this process result in the Authority obligating or requesting payment for ineligible, unsupported or inadequately supported expenditures as asserted by OIG.*

The OIG referenced one other expenditure, appliances for dwelling units, as being obligated to the incorrect line item. The Authority had issued one purchase order relating to the competitive grant for approximately \$4,000 for four refrigerators and four ranges (exhibit 3). This obligation

Comment 3

was applied to the budget line item for non-dwelling equipment. The Authority agrees that a portion of this purchases order should have been obligated under dwelling equipment. But, due to the immaterial amount, the Authority obligated the entire purchase as non dwelling equipment. Once the expenditure is actually made and before the funds are requested from HUD, the Authority will adjust the amounts spent on dwelling equipment to the appropriate budget line item. *The Authority maintains that this practice at no time did or will result in the Authority obligating or requesting payment for ineligible, unsupported or inadequately supported expenditures as asserted by OIG.*

OIG stated that some of the Authority's interim reporting in HUD's Line of Credit Control System (LOCCS) either overstated or understated obligations. The example provided states that in May 2010 there were obligations reported of \$92,132 (exhibit 4) for the competitive grant and that this amount was overstated by \$38,000 due to undetected errors made by Authority staff. This is incorrect. The amount referred to is for architectural services. In fact the contract for architectural services totaled \$92,676 (exhibit 5) as of May 31, 2010. OIG looked at internal reports prepared by staff for management review and analysis to determine what should have been obligated at various points in time. These internal reports serve various internal purposes and were not necessarily meant to represent what should be reported to HUD at any given time. OIG erroneously looked at backup for HUD drawdowns at a given date to determine obligations. For example, the architect's invoice paid in May 2010 (exhibit 6), and subsequently drawn down in LOCCS in May, was for work performed mostly in March 2010 and did not contain change orders agreed to by May 31, 2010. Requests for payments through LOCCS are generally in arrears therefore backup may not show current status as of the date of the actual drawdown and should not have been used by OIG to determine obligations as of the drawdown dates. It is possible obligations may have been immaterially understated or overstated at the end of several of the months in the beginning of the grant period as this is a fluid process with obligations frequently changing until the majority of the contracts can be put in place.

The Authority has a very stringent and thorough process for obligating any of its funds. Based on the Authority's written procurement policy (exhibit 7) all contracts must be reviewed and approved by various levels of staff and management before the Authority encumbers its funds. The Authority's accounting software also allows for contracts to be set up in the accounting system at the time they are entered into and subsequently all paper work is sent to accounting to process the contract. All payments made against any contracts must be sufficiently set up in the accounting system and funds are verified as to availability. Additionally, the Authority retains written documentation for all purchase orders, contract obligations and payments, expenditures and procurement sources as required by 31 U.S.C. 1501. There may be timing differences where contracts and change orders are in route at month end, therefore, obligation numbers reported by accounting may be immaterially understated or overstated at any given month end date. Nonetheless, this process assures that no improper payments are made or funds improperly encumbered by the Authority. *Therefore, this practice at no time did or will result in the*

Authority obligating or requesting payment for ineligible, unsupported or inadequately supported expenditures as asserted by OIG.

OIG Assertion: The Authority did not always follow procurement requirements.

Comment 4

The Authority adamantly disagrees with the statement that the agency “could not provide assurance that \$459,499 was awarded to the most qualified applicant or that contract modification costs were always reasonable.” All proposals, evaluation sheets and staff were readily available to justify the most qualified architectural services were obtained through HUD procurement regulations. In the findings on page 8, OIG states “the Authority had procedures for change orders and had completed cost analysis for the change orders reviewed” which clearly indicates adherence to regulations. Changes orders and/or contract modifications are reviewed and approved for cost analysis and reasonableness by the AIA’s, and Authority staff including, but not limited to Capital Improvements Staff, Business Manager, Contracting Officer (Chief Operating Officer), Chief Financial Officer, Vice President of Operations, Vice President of Administration and the Chief Executive Officer before approval of changes or contract modifications.

Comment 5

The Authority obtained architectural and engineering services through the Competitive Proposal Method, in accordance with the requirements set forth in the Department of Housing and Urban Development (HUD) regulations 24 CFR 85.36:

Grantees and Sub-grantees *may* use competitive procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors’ qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation.

Comment 6

The Authority did fully comply with its own procurement policy ([exhibit 7](#)) and HUD procurement regulations for the two architectural and engineering services as set forth on 24 CFR 85.36 and Section G, Capital Fund Stimulus Grant Procurement Policy, of the GHA Procurement and Disposition form Low-Rent Public Housing and Housing Choice Voucher Programs states:

The following policy shall be used only for procurements related to Capital Fund Stimulus Grant (CFSG) as provided by the American Recovery and Reinvestment Act of 2009 (ARRA).

It is the policy of the Greensboro Housing Authority (GHA) to make all CFSG purchases, procurements, construction and professional contracts in accordance with the requirements set forth in the Department of Housing and Urban Development (HUD) Regulation 24 CFR 85.36, or ARRA. Any requirements relating to the procurement of goods and services arising under state and local laws and regulations shall not apply. HUD’s Procurement Handbook for Public

Comment 7

Housing Agencies may be used for guidance as well as HUD's PIH Notice 2009-12.

Requirements regarding conflicts of interest, contract cost and price will follow Regulation 24 CFR 85.36.

GHA will continue to follow its current policies and procedures for protests, codes of standards for employees engaged in the award and administration of contracts which do not conflict with Regulation 24 CFR 85.36.

GHA will abide by the "buy American" requirement and use only iron, steel and manufactured goods produced in the United States for its projects.

The decision to go forth with the issuance of the Request for Proposal (RFP) allowed cost and price analysis and a competitive range determined as seen on the evaluation forms. The contracts were awarded to the most responsible firm whose qualification, price and other factors considered, proved the most advantageous to the Authority.

OIG Assertion: Some fund drawdowns contained errors.

The Authority disagrees that some fund drawdowns contained errors of any material nature. OIG begins this comment by stating that all drawdowns were for eligible expenses. OIG states that funds were drawn against wrong budget line items due to staff errors, further referencing that funds were drawn against site improvements that should have been against dwelling structures. Information detailing the \$215,619 referenced as being drawn against wrong budget line items was not provided to the Authority by OIG. The authority assumes that these were mostly amounts contained within the general contractor's invoices for the formula grant (**exhibit 8**). The contractor's invoices for the formula grant (**exhibit 2**) were broken out by the corresponding ARRA line items.

However, materials were billed for when purchased by the contractor and not separated on the invoice between site improvements, dwelling structures and non dwelling structures until a subsequent invoice when they were actually used in construction. Therefore, at the time of payment for materials the allocation was estimated. For example, the January invoice may include \$50,000 for materials that will be used in site improvements, dwelling structures and non dwelling structures. The Authority will be billed for and pay the \$50,000 in January. The Authority may charge the site improvements line item \$10,000, the dwelling structure line item \$20,000 and the non dwelling structure line item \$20,000. Further assume that the March invoice shows that \$30,000 in materials is actually used for dwelling structures and \$20,000 is used for non dwelling structure. This will result in a \$10,000 adjustment between the site improvements and dwelling structures budget line items, but does not indicate that the Authority allocated the costs in error in January.

Also, there were change orders which were not broken out on the invoices into the ARRA line items. As a result, interim payments were charged to the various line items on an estimated basis but by the time the final payments are made the allocation of costs will be correct. *At no time did or will this process result in the Authority requesting payment for ineligible or unsupported expenditures or drawdowns containing errors as the use of estimates does not necessarily translate into errors.*

Comment 8

OIG further states that blinds and printers purchased through the formula grant were charged incorrectly against non dwelling structures and should have been charged to non dwelling equipment. The Authority agrees that the invoices, \$900 for blinds (exhibit 9) and \$821 for one printer (exhibit 10) should have been charged to a line item for non dwelling equipment. The amounts are immaterial to the \$5,000,000 grant and as such do not constitute a material error. However, the Authority will reclass these expenditures as non dwelling equipment. *Nonetheless, the Authority maintains that at no time did the Authority request payment for ineligible or unsupported expenditures or process drawdowns which contained material errors.*

OIG Assertion: The Authority's quarterly reports contained errors.

Comment 9

The Authority disagrees that its quarterly reports contained errors. OIG first references the Authority's competitive grant report for the quarter ending 12/31/10 (exhibit 11) which stated that the general contractor was 57% complete. OIG asserts that this figure is incorrect based on the Authority's supporting documentation which showed it was only 25% complete. In fact, the supporting documentation that was shown to OIG by Authority staff was for the third quarter report (exhibit 12) which actually reports that the contractor is 25% complete. However, the contractor's invoice (exhibit 13) for work completed through December 21, 2010 shows that 53% of the work had been completed as of that date. Based on actual completed work as of December 21, 2010, and given the holidays between the invoiced date and the end of the quarter the Authority maintains that it reasonably estimated that 57% was complete by December 31, 2010. *Therefore, the information reported in the quarterly report was not in error, although the authority did erroneously provide documentation to OIG for the wrong quarter.*

Comment 10

OIG further states that the Authority was unable to provide support for the "job creation" numbers reported. OMB (Office of Management and Budget) Memorandum M-10-08 did not establish specific requirements for supporting reported estimates for jobs created or retained. In fact, the built in mechanism that HUD uses itself simply divides the total number of hours worked and funded by Recovery Act within the reporting quarter by the number of quarterly hours in a full time schedule to estimate that number. The Authority relied on timesheets and information (exhibit 14) provided by the contractor, payroll records, section 3 reports, etc., to determine the number reported. This process was refined for the Authority's subsequent quarterly reports by incorporating HUD's own reasonable test and suggested formula (exhibit 15). Based on the additional guidance provided by OMB Memorandum M-10-08, the authority agrees the number provided for jobs created included in the report for the quarter ending

Comment 11

December 31, 2010 does not estimate full time equivalent jobs but rather counts individuals regardless of the number of hours worked. The Authority has improved its process as indicated in the next quarter's report (exhibit 16) which was filed prior to the completion date of OIG's audit of the Authority but not reviewed by OIG. *Therefore, the Authority maintains that this information was reported as an estimate based on available information and did not contain an intentional or negligent error but rather one that resulted from misunderstanding the calculation. The Authority understands the process and has corrected its method of recording the number of jobs created.*

OIG's Conclusion: The Authority could not provide assurance that \$459,499 in contracts was awarded in accordance with procurement regulations or that \$66,730 in obligations and \$215,619 in expenditures met HUD's requirements. In addition, the required Recovery Act reporting contained errors. These deficiencies occurred due to staff errors and a lack of sufficient written policies and procedures.

The Authority disagrees with all assertions stated in OIG's conclusion. The Authority obtained architectural and engineering services through the Competitive Proposal Method, in accordance with the requirements set forth in the Department of Housing and Urban Development (HUD) regulations 24 CFR 85.36 and fully complied with its own procurement policy (exhibit 7) Section G. The contracts totaling \$459,499 were awarded to the most responsible firm whose qualification, price and other factors considered, proved the most advantageous to the Authority. The \$66,730 in obligations and \$215,619 in expenditures met HUD's requirements based on information previously delineated in this response.

In addition, the required Recovery Act reporting did not contain an error as to the percentage of construction completed, but rather the supporting documentation used was for the quarter prior to the one being reviewed. The reported number of jobs created did represent the accurate number of individuals receiving jobs as a result of the grant and were not reported in error. The only error was realizing that the report defined number of jobs as full time equivalents (as described by additional guidance provided by OMB) and not the number of actual individuals impacted. The Authority changed its calculation method for subsequent reports.

At no time did the Authority obligate or request payment for ineligible, unsupported or inadequately supported expenditures as asserted by OIG. All funds obligated in the LOCCs system have supporting documentation (exhibits 17 and 18) and were for eligible expenditures. All funds drawn for expenditures were eligible expenses and have supporting documentation (exhibits 17 and 18). Variances among budget line items may exist in the interim due to the invoicing practice used by the general contractors resulting in individual budget line items varying throughout the construction phase until final allocations can be made at the completion of the construction. In conclusion, the Authority maintains that there are not deficiencies present in GHA's operation of these grants and that the Authority has relevant, sufficient written policies and procedures (exhibit 7) under which to operate these grants.

OIG's Recommendations: We recommend that the Director of HUD's Greensboro, NC, Office of Public Housing require the Authority to

1A. Develop, implement and enforce adequate written grant policies, which include procedures for maintaining obligation documentation and coding of obligations to the appropriate budget line item, to ensure that the Recovery Act funds are properly obligated and supported.

As required by HUD, the Authority has developed, implemented and enforced written grant policies (exhibit 7) to insure the Recovery Act funds are properly obligated and supported. The audit report, on page 2, states "... the Authority used its Recovery Act funds for eligible activities and complied with most program requirements...". On March 29, 2009 the Authority amended its procurement policy as required by the Recovery Act, which was signed into law on February 17, 2009 requiring PHAs to established special criteria for the ARRA funds including restrictions on using funds for operations, and obligation and expenditure times lines. This policy change was submitted to the Greensboro HUD Office on September 10, 2009. The Authority has written policies and procedures in place to ensure that the Recovery Act funds are properly obligated and supported. The Authority has a very stringent and thorough process for obligating any of its funds. Based on the authority's written procurement policy all contracts must be reviewed and approved by various levels of staff and management before the authority encumbers its funds. The authority's accounting software also allows for contracts to be set up in the accounting system at the time they are entered into and subsequently all paper work is sent to accounting to process the contract. All payments made against any contracts must be sufficiently set up in the accounting system and funds are verified as to availability. Additionally, the authority retains written documentation for all purchase orders, contract obligations and payments, expenditures and procurement sources as required by 31 U.S.C. 1501.

All assertions made by OIG with regards to the obligations made for Recovery Act funds have been refuted. Most of the concerns stated by OIG in this report were either not brought to the attention of management during the audit, or discussed with inappropriate level of staff who did not provide complete and accurate information. The Authority believes that many of these concerns would have been satisfied and no longer a concern if OIG had made management aware of them during the time of the audit. Even at the time of this response, management is not fully aware of what constitutes the issues addressed in this report and is speculating based on the language provided in this report alone. The Authority was told at the beginning of the audit that OIG would update management throughout the audit with any concerns and the status of the audit. Very few concerns were mentioned and the ones that were mentioned resulted in management being able to address OIG's concerns effectively.

Comment 12

Comment 13

1B. Provide supporting documentation showing that the \$66,730 in obligations was charged to the appropriate budget line item on the Recovery Act annual statements. Any amounts determined to be ineligible should be reimbursed to the Authority's Recovery Act account from non-Federal funds.

Comment 14

GHA has supporting documentation (exhibits 17 and 18) for all obligations on its Recovery Act annual statements. With regards to the questioned \$66,730 in obligations that are specifically related to the contractor's expenses, the Authority concurs that obligations may vary until the construction is complete and final allocation of actual numbers can be determined. As OIG stated numerous times in its report under "What We Found", "Results of Audit, Finding", opening paragraph and again in first section "THE AUTHORITY USED GRANT FUNDS FOR ELIGIBLE ACTIVITIES", ALL GRANT FUNDS WERE USED FOR ELIGIBLE EXPENSES. Therefore, there are no amounts determined to be ineligible and requiring reimbursement. The statement, "Any amounts determined to be ineligible should be reimbursed to the Authority's Recovery Act account from non-Federal funds." should not be included under OIG's recommendations as it contradicts OIG's own findings stated not once, but several times, in its report. The Authority agrees with OIG and asserts that all funds were spent on eligible activities.

1C. Develop, implement, and enforce written procedures to ensure effective performance and compliance with federal procurement regulations and to ensure proper use of all Recovery Act funds.

As required by HUD, the Authority has developed, implemented and enforced written procedures (exhibit 18) to ensure effective performance and compliance with Federal procurement regulations and to ensure proper use of all Recovery Act funds. The audit report, on page 2, states "... the Authority used its Recovery Act funds were used for eligible activities and complied with most program requirements..." On March 29, 2009 the Authority amended its procurement policy as required by Recovery Act signed into law on February 17, 2009 requiring PHAs to established special criteria for the ARRA funds including restrictions on using funds for operations, and obligation and expenditure times lines as follows. This policy change was submitted to Greensboro HUD Office on September 10, 2009.

As required by 31 U.S.C. 1501 the Authority has written procedures and supporting documentation for all of its expenditures, obligations, contracts, purchase orders, etc. As OIG stated numerous times in its report under "What We Found", "Results of Audit, Finding", opening paragraph and again in first section "The Authority Used Grant Funds For Eligible Activities", all grant funds were used for eligible expenses. This recommendation should not be included as it contradicts OIG's own findings stated not once, but several times, in its report.

1D. Provide supporting documentation to support that \$459,499 or the current contract amounts were awarded to the most qualified and responsive bidder. Any expended amounts determined to be ineligible should be reimbursed to the appropriate account from non-Federal funds.

The Authority adamantly disagrees with the statement that the agency “could not provide assurance that \$459,499 was awarded to the most qualified applicant or that contract modification costs were always reasonable.” All proposals, evaluation sheets and staff were readily available to justify the most qualified architectural services were obtained through HUD procurement regulations. In the findings on page 8, OIG states “the Authority had procedures for change orders and had completed cost analysis for the change orders reviewed” which clearly indicates adherence to regulations. Change orders and/or contract modifications are reviewed and approved for cost analysis and reasonableness by the AIA’s, and Authority staff including, but not limited to Capital Improvements Staff, Business Manager, Contracting Officer (Chief Operating Officer), Chief Financial Officer, Vice President of Operations, Vice President of Administration and the Chief Executive Officer before approval of changes or contract modifications.

The Authority obtained architectural and engineering services through the Competitive Proposal Method, in accordance with the requirements set forth in the Department of Housing and Urban Development (HUD) regulations 24 CFR 85.36:

Grantees and Sub-grantees *may* use competitive procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors’ qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation.

The Authority did fully comply with its own procurement policy and HUD procurement regulations for the two architectural and engineering services as set forth on 24 CFR 85.36 and Section G, Capital Fund Stimulus Grant Procurement Policy, of the GHA Procurement and Disposition form Low-Rent Public Housing and Housing Choice Voucher Programs states:

The following policy shall be used only for procurements related to Capital Fund Stimulus Grant (CFSG) as provided by the American Recovery and Reinvestment Act of 2009 (ARRA).

It is the policy of the Greensboro Housing Authority (GHA) to make all CFSG purchases, procurements, construction and professional contracts in accordance with the requirements set forth in the Department of Housing and Urban Development (HUD) Regulation 24 CFR 85.36, or ARRA. Any requirements relating to the procurement of goods and services arising under state and local laws and regulations shall not apply. HUD’s Procurement Handbook for Public

Housing Agencies may be used for guidance as well as HUD's PIH Notice 2009-12.

Requirements regarding conflicts of interest, contract cost and price will follow Regulation 24 CFR 85.36.

GHA will continue to follow its current policies and procedures for protests, codes of standards for employees engaged in the award and administration of contracts which do not conflict with Regulation 24 CFR 85.36.

GHA will abide by the "buy American" requirement and use only iron, steel and manufactured goods produced in the United States for its projects.

The decision to go forth with the issuance of the Request for Proposal (RFP) allowed cost and price analysis and a competitive range determined as seen on the evaluation forms. The contracts were awarded to the most responsible firm whose qualification, price and other factors considered, proved the most advantageous to the housing authority.

As OIG stated numerous times in its report under "What We Found", "Results of Audit, Finding", opening paragraph and again in first section "The Authority Used Grant Funds For Eligible Activities", all grant funds were used for eligible expenses. Therefore, there are no amounts determined to be ineligible and requiring reimbursement. The statement, "Any expended amounts determined to be ineligible should be reimbursed to the appropriate account from non-Federal funds." should not be included under OIG's recommendations as it contradicts OIG's own findings stated not once, but several times, in its report.

1E. Provide supporting documentation showing that the \$215,619 in expenses was adjusted and charged against the correct budget line item on the Recovery Act annual statements. Any amounts determined to be ineligible should be reimbursed to the Authority's Recovery Act account from non-Federal funds.

The \$215,619 in expenses referenced as being drawn against wrong budget line items were amounts contained within the general contractor's invoices. As previously described within this response, these types of expenditures are at times estimated as to the applicable construction budget line item to charge at the time of payment. However, once the construction process is final, more concise application of expenses to the various line items can be determined and reported at which time the Authority will provide supporting documentation showing that the expenses were adjusted and charged against the correct budget line item in the Recovery Act annual statement. This practice only impacts fluctuations among individual budgeted line items relative to construction and does not result at any time in the Authority requesting payment for

Comment 15

Comment 16

any expenditures that are determined to be ineligible under the Recovery Act, as confirmed by OIG in this report under “What We Found”, “Results of Audit, Finding”, opening paragraph and again in first section “The Authority Used Grant Funds For Eligible Activities”, all grant funds were used for eligible expenses. Therefore, there are no amounts determined to be ineligible and requiring reimbursement. The statement, “Any amounts determined to be ineligible should be reimbursed to the Authority’s Recovery Act account from non-Federal funds.” should not be included under OIG’s recommendations as it contradicts OIG’s own findings stated not once, but several times, in its report.

1F. Establish written procedures for reporting the quarterly updates as required by the Recovery Act and HUD to ensure that accurate and supported information is reported.

The Authority maintains that its quarterly report (exhibit 10) required by the Recovery Act and HUD contained accurate and supported information. OIG alleged two errors in the reports. The first one was the percent reported as completed by the contractor as of the end of the quarter reported. Supporting documentation (exhibit 12) was available for OIG’s review at the time of the audit but was not correctly provided by Authority staff. The second alleged error was with the number of jobs reported. The Authority did report the actual number of jobs created. However, the intent of the report was to convert this information into full time equivalent jobs based on total hours worked by all newly hired individuals and not generated by counting the actual number of individuals impacted. The Authority had refined its reporting process by the time the next quarterly report was filed, to comply with additional guidance provided by HUD for defining “jobs created”. At the direction of HUD, the Authority agrees to establish written procedures for reporting the quarterly updates under the Recovery Act.

Internal Controls

OIG's Assertion: Significant Deficiency: Based on our review, we believe that the following item is a significant deficiency: The Authority's controls over obligation, procurement, expenditure, and reporting process did not ensure that the Recovery Act funds were used as required (finding 1).

The Authority has a very stringent and thorough process for obligating and expending any of its funds. Based on the Authority's written procurement policy all contracts must be reviewed and approved by various levels of staff and management before the Authority encumbers its funds. All payments made against any contracts must be sufficiently set up in the accounting system and funds are verified as to availability. Additionally, the Authority retains written documentation for all purchase orders, contract obligations and payments, expenditures and procurement sources as required by 31 U.S.C. 1501.

This significant deficiency in internal control asserted by OIG directly contradicts what OIG has repeatedly reported in their audit report of the Authority, beginning with the first sentence under "What We Found, **used** its Recovery Act funds for eligible activities". OIG stated under "Results of Audit, Finding: ...the Authority **used** its funds for eligible activities...and 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."

Therefore, there were no issues that resulted in the finding that the OIG was unable to ascertain that the Recovery Act funds were not used as required. **In fact, the OIG made it a point to repeatedly state that all of the funds were in fact used as required.** While there may be improvements that can be made to the Authority's internal control, as is the case with most entities, it is highly unlikely that OIG could repeatedly find that the Authority used these funds as required if there were any **significant** deficiencies present. Therefore, this finding is not supported and should be deleted from the report.

Comment 17

Appendixes

OIG's Assertion: Appendix A: Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Unsupported 1/</u>
1B	\$ 66,730
1D	459,499
1E	<u>215,619</u>
<u>Total</u>	<u>\$ 741,848</u>

GHA disagrees that there are any questioned costs to be reported. According to Appendix A these are questioned costs because they are unsupported. The definition of Unsupported Costs as presented by OIG in this report is as follows:

*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.***

The Schedule of Questioned Costs directly contradicts what OIG has repeatedly reported from this audit, beginning with the first sentence under "What We Found, used its Recovery Act funds for **eligible** activities". OIG stated under "Results of Audit, Finding: ...the Authority used its funds for **eligible** activities...and 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."

OIG made it a point to repeatedly state that all of the costs charged and activities funded were in fact eligible at the time of the audit. Therefore, there were no costs or activities funded that OIG could not determine eligibility at the time of the audit. There should be no questioned costs in existence based on OIG's own statements and results. Appendix A: Schedule of Questioned Costs is not valid or supported and should be deleted from the report.

Comment 18

OIG Evaluation of Auditee Comments

- Comment 1** We inserted the appropriate grant title (formula or competitive) within the report to clarify which grant we were referring to. In addition, we provided Authority management additional detail for the questioned costs during the exit conference.
- Comment 2** We provided the Authority additional information detailing the breakdown of the miscoded obligations during the exit conference. The Authority agreed that some items were obligated to the wrong budget line items and would be corrected during the audit resolution process with the Greensboro Public Housing staff.
- Comment 3** We disagree with the Authority's statement that we erroneously looked at backup for expenditures in order to determine obligations. We assessed claimed obligation amounts based on contracts signed and purchase orders prepared by the Authority.

However, we agree with the Authority's claim that obligations for May were properly reported. We used May in our example when we should have used April and have revised the report accordingly. While on site, we explained this error to the Chief Executive Officer who acknowledged the miscalculation in the internal report used to determine total obligations to report in LOCCS.

- Comment 4** During the exit conference, Authority management acknowledged that the evaluation process it used for the architect and engineering services was flawed and that the Authority plans to develop new procedures for future competitive proposal procurements. We are pleased that the Authority recognized the need for revised procedures. During the audit resolution process, the Authority should provide the Greensboro Public Housing Staff documentation to support that \$459,499 or the current contract amounts were awarded to the proposal that represented the best overall value to the Authority.
- Comment 5** We agree that the Authority's review process for change orders is very extensive. However, some of the cost analysis forms for change orders lacked sufficient explanation of the methodology employed to establish cost reasonableness and/or lacked supporting documentation. For example, one change order stated only that the change was reasonable based on staff's feelings.
- Comment 6** We agree with the Authority's contention that it properly followed its Recovery Act procurement policy for the architectural and engineering contracts. Although the Authority's standard procurement policy did not allow the procurement method used, the Recovery Act policy allowed the procurement method and supersedes the standard procurement policy for Recovery Act procurements. As such, we removed the statement that the Authority did not follow its own procurement policy and made other changes to the section on procurement.

- Comment 7** We provided the Authority a breakdown of unsupported costs at the exit conference. We agree that some of the amounts charged to incorrect budget line items were small but believe the issue is material. Regardless of the amount, the Authority should only draw funds from LOCCS for eligible approved items in the Annual Statement using the correct budget line item.
- Comment 8** During the audit resolution process, the Authority should provide the Greensboro Public Housing Staff documentation showing how the expenditures were reclassified.
- Comment 9** The Authority's comments state that the 57 percent completion reported for the competitive grant was correct, but that Authority staff had provided us the wrong supporting documentation during the audit. Documentation submitted with the comments supports the Authority's claim that the project was 57 percent complete. We revised the report to show that although the reported information was not supported at the time of our review, the percentage of completion reported was correct.
- Comment 10** The Authority acknowledged in the comments and at the exit conference that the "jobs created" number shown in its quarterly reports did not reflect full time equivalents as required. The Authority should ensure future reports include the numbers for jobs created using the formula established by OMB-M-10-08. It should also maintain supporting documentation for the numbers submitted.
- Comment 11** We addressed the Authority's comments to our conclusion with the evaluation of previous comments.
- Procurement - see comments 4, 5, and 6
Reporting - see comments 9 and 10
Obligations/Expenditures - see comments 1, 2, 3, and 7
- Comment 12** We disagree that the Authority's management was not kept informed during the review. During the review, we discussed our concerns with Authority staff including the points of contact assigned by the Chief Executive Officer at the entrance conference. We expected the staff to keep Authority management informed regarding the review results, but would have gladly discussed any concerns directly with management if that had been requested. We further discussed the review results with Chief Executive Officer Tina Akers Brown and Chief Operating Officer Don House at a meeting held at the end of our fieldwork on April 26, 2011.
- Comment 13** The Authority's comments incorrectly state that the \$66,730 in miscoded obligations pertained to contractors expenses. They actually pertained to the purchase of appliances and audio equipment. During the exit conference, we provided Authority management additional information detailing the breakdown of all miscoded obligations.

- Comment 14** Our wording in recommendations regarding the reimbursement of unsupported costs later determined to be ineligible is standard for any recommendations with unsupported costs. Thus, we cannot agree with the Authority's request to remove the wording.
- Comment 15** As explained in Comment 4 above, during the audit resolution process the Greensboro Public Housing office will ask the Authority to provide the documentation necessary to support the \$215,619 in expenses so that recommendation 1E may be closed.
- Comment 16** During the exit conference, we agreed that the Authority not be required to develop written procedures in this instance due to the short time left with the grant, and because HUD has provided housing authorities with procedures for quarterly reporting. We modified the recommendation accordingly.
- Comment 17** We cannot remove the Internal Control section of the Audit as the Authority requests because it is a standard element of our report.
- Comment 18** We cannot remove Appendix A, Schedule of Questioned Costs, from the report as the Authority requests because it is a standard element for audit reports containing questioned costs.