



Issue Date June 17, 2011
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Audit Report Number 2011-CH-1009
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TO: Shawn Sweet, Director of Public Housing Hub, 5DPH

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FROM: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

SUBJECT: The Housing Authority of the City of South Bend, IN, Generally Administered Its Public Housing Capital Fund Stimulus Formula Grant (Recovery Act Funded) in Accordance With Applicable Requirements

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of South Bend, IN's (Authority) American Recovery and Reinvestment Act of 2009 (Recovery Act) Public Housing Capital Fund Stimulus Formula grant. Our objective was to determine whether the Authority obligated, disbursed, and expended funds in accordance with Recovery Act and U.S. Department of Housing and Urban Development (HUD) requirements.

### **What We Found**

The Authority generally obligated, disbursed, and expended funds in accordance with Recovery Act and applicable HUD requirements. Additionally, it maintained adequate documentation to support its disbursements, generally complied with HUD's and its own procurement requirements, and accurately reported its obligations and expenditures.

## **What We Recommend**

Since the report does not contain findings, there are no recommendations. However, we informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of minor deficiencies through a memorandum, dated, June 17, 2011.

## **Auditee's Response**

We provided a copy of the discussion draft audit report to the Authority on June 8, 2011. The Authority did not request an exit conference.

We asked the Authority to provide written comments to the draft report by June 14, 2011. The Authority provided written comments dated June 13, 2011, that agreed with the report. The complete text of the Authority's response can be found in appendix A of this report.

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## BACKGROUND AND OBJECTIVES

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The Housing Authority of the City of South Bend, IN, is a governmental entity established under Indiana State Code 36-7-18-4, with a mission to develop and manage affordable housing for the residents of South Bend, IN. The Authority's board of commissioners is appointed by the mayor. The commissioners govern the Authority and delegate direct responsibility for the administration of the Authority's day-to-day operations to the executive director.

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

On March 5, 2009, HUD executed an amendment to the Authority's annual contributions contract to provide more than \$2 million in formula grant funds. The Recovery Act required public housing authorities to obligate 100 percent of the funds within 1 year of the date on which the funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of such date. The Authority obligated the funds within the required timeframe and as of March 2011, had expended 100 percent of the funds.

HUD also required the Authority to use its formula grant on eligible activities that were already identified in either its annual or 5-year plan.<sup>1</sup> According to the Authority's fiscal year 2009, 5-year and annual plan, it intended to use the funds to make capital improvements to three of its public housing developments.

Our objective was to determine whether the Authority obligated, disbursed, and expended funds in accordance with Recovery Act and U.S. Department of Housing and Urban Development (HUD) requirements.

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<sup>1</sup> The annual plan and 5-year plan are all components of the Authority's comprehensive plan. The HUD- approved comprehensive plan sets forth all of the Authority's physical and management improvement needs for its public housing developments.

## RESULT OF AUDIT

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### The Authority Generally Administered Grant Funds in Accordance With Applicable Requirements

The Authority generally obligated, disbursed, and expended funds in accordance with Recovery Act and applicable HUD requirements. Additionally, it maintained adequate documentation to support its disbursements, complied with HUD's and its own procurement requirements, and accurately reported its obligations and expenditures.

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#### **The Authority Appropriately Obligated and Expended Funds**

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

The Recovery Act required the Authority to obligate 100 percent of its Recovery Act funds by March 17, 2010, and expend 100 percent by March 17, 2012. The Authority obligated 100 percent of the funds by the required date and as of March 2011, had expended all of the funds.

The Authority drew down grant funds from HUD's automated Line of Credit Control System when the payments were due to pay for eligible activities. It also maintained adequate documentation to support disbursements, such as executed contracts, cancelled checks, and approved requests for periodic partial payments.

#### **The Authority Generally Complied With Applicable HUD Procurement Requirements**

The Authority generally complied with HUD's procurement requirements. It amended its procurement policy to ensure compliance with the requirements of Notice PIH-2009-12. Additionally, for all four of the Authority's contracts funded using Recovery Act funds, it maintained sufficient supporting documentation to detail the significant histories of the procurements as required by 24 CFR (Code of Federal Regulations) 85.36. Further, change orders related to the executed contracts included the appropriate approvals and documentation to support the reasons for the changes. When we performed site visits and cursory

visual inspections of the completed construction, we did not identify any exceptions.

The Authority notified its contactors when the Davis-Bacon Act applied and ensured that its contractors paid their employees the appropriate Federal labor standards prevailing wage rates. It also monitored the contractors' performance.

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

The Authority complied with all reporting requirements within program guidelines. It complied with and properly reported its obligations, expenditures, compliance with environmental requirements, and number of jobs created in accordance with guidance issued by the Office of Management and Budget (OMB).

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

### **Conclusion**

The Authority generally obligated, disbursed, and expended funds in accordance with Recovery Act and applicable HUD requirements. Specifically, it (1) obligated its Recovery Act grant funds in a timely manner, (2) expended funds within the program guidelines, (3) maintained documentation to support procurement activities, and (4) complied with all reporting requirements. Therefore, no reportable deficiencies were identified.

### **Recommendations**

This report does not contain recommendations; therefore, no action is needed with respect to this report.

## SCOPE AND METHODOLOGY

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We conducted the audit from December through April 2010. Our fieldwork was conducted at the Authority's main office located at 501 Alonzo Watson Drive, South Bend, IN. The audit period was March 2009 through November 2010 but was extended when necessary.

To accomplish our audit objective, we

- Reviewed HUD's Recovery Act requirements, applicable HUD and other Federal regulations, and OMB guidance.
- Reviewed the Authority's bylaws, Public Housing Capital Fund Stimulus Formula Recovery Act grant amendment to the annual contributions contract, written policies and procedures related to procurement, monitoring/reporting of grant funds, expenditures, and disbursements.
- Reviewed HUD's Line of Credit Control System drawdown reports.
- Reviewed the Authority's procurement files, annual statement, action plans, and fiscal years 2008 and 2009 independent auditors' reports.
- Reviewed and tested monitoring/reporting records and financial records.
- Reviewed the Authority's board meeting minutes, general ledgers, payroll records, check registers, cancelled checks, and contractors' timesheets.
- Selected and reviewed all four of the Authority's procurement contracts, funded using Recovery Act funds, and examined the related supporting documentation.
- Performed cursory onsite inspections of the Authority's public housing developments that were renovated using Recovery Act funds.
- Conducted interviews with HUD's and the Authority's staff.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent 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

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our review of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

## Appendix A

### AUDITEE COMMENTS

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June 13, 2011

Kelly Anderson  
Acting Regional Inspector General for Audit  
United States Department of Housing and Urban Development  
Office of Inspector General  
77 West Jackson Blvd, Suite 2646  
Chicago, IL 60604

***Subject: Discussion Draft Audit Report***

Dear Ms. Anderson:

We have received and carefully reviewed the Discussion Draft Audit Report from your office. We concur completely with the findings as stated and have no need to offer any additional comments. We thank you for the opportunity to review the Report prior to publication and await its official publication.

Sincerely,

*//signed//*  
Marva J. Leonard-Dent  
Executive Director

cc: Rafael Morton, Chairman, Board of Commissioners