



Issue Date January 5, 2011

Audit Report Number 2011-FW-1004

TO: Johnny Wooley, Director, Office of Public Housing, 6FPH

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The West Memphis, AR, Housing Authority Generally Administered Its
Recovery Act Funding in Compliance With Requirements

HIGHLIGHTS

What We Audited and Why

We audited the West Memphis Housing Authority (Authority) in Arkansas as part of our annual audit plan to review the Public Housing Capital Fund Stimulus (formula) Recovery Act Funded (Recovery Act). We chose to audit the Authority based upon our risk assessment and subsequent discussion with the U. S. Department of Housing and Urban Development (HUD). Our objective was to determine whether obligations the Authority made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported, whether procurements and disbursements were made in accordance with requirements.

What We Found

Generally, the Authority complied with Recovery Act requirements regarding the obligation of capital funds, including complying with procurement requirements. However, it did not comply with all requirements and could strengthen its controls. The instances of noncompliance appeared to have been oversights by the Authority.

What We Recommend

We recommend that the Director, Office of Public Housing, require the Authority to implement procurement and accounting procedures to ensure that it executes contracts within award amounts and budgets amounts reasonably in its action plans and annual statements. Further, HUD should require the Authority to allocate from existing funds to cover the more than \$23,000 that it over-obligated from its Recovery Act funds. 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 copy of the draft report to the Authority and HUD on December 7, 2010 with a request for a written response by December 17, 2010. We held an exit conference with the Authority on December 14, 2010, and it provided written comments to the draft report on December 17, 2010.

The Authority did not entirely agree with parts of the finding. However, the Authority's response and corrective action to obligate funds is adequate to resolve Recommendation 1B. Thus, we will close the recommendation concurrent with the report issuance. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The West Memphis Housing Authority (Authority), incorporated under the laws of the State of Arkansas, was established in December 1959. The Authority operates under the governance of a board of commissioners (board), which appoints an executive manager to manage the Authority. The board is made up of five members. The Authority works with the U. S. Department of Housing and Urban Development (HUD) to provide low-income public housing to individuals eligible for financial assistance and owns and operates 385 low-rent public housing units in two developments and administers 523 housing choice vouchers. The Authority targeted the Courtyard Apartments, one of its public housing facilities, for part of its Recovery Act work.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). Under the law, HUD funded the Public Housing Capital Fund Stimulus (formula) Recovery Act Funded (Recovery Act).¹ The Recovery Act provided \$4 billion to carry out capital and management activities for public housing agencies according to law.² 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. Table 1 summarizes the funds the Authority received.

Table 1. West Memphis Housing Authority Capital Fund grant awards

Fiscal year	Authorized funds
2008 regular Capital Fund	\$626,392
2009 regular Capital Fund	\$628,852
2009 Recovery Act Capital Fund	\$792,888

HUD allocated and made available \$792,888 to the Authority for its Recovery Act Capital Fund (formula grant) on March 18, 2009, with an obligation deadline of March 17, 2010. The Recovery Act required HUD to recapture the remaining unobligated funds awarded to the Authority and reallocate funds to agencies that complied with those requirements if the Authority failed to comply with the obligation deadline. HUD required the Authority to use its formula grant on eligible activities already identified or revised to be included in either its annual statement or Five-Year Action Plan (action plan) by the mandated deadline and to provide a budget for completing those activities.

The audit objective was to determine whether obligations the Authority made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported, whether procurements and disbursements were made in accordance with requirements.

¹ Catalog of Federal Domestic Assistance Number 14.885.

² Section 9 of the U.S. Housing Act of 1937

RESULTS OF AUDIT

Finding: The Authority Generally Administered Its Recovery Act Funding in Compliance With Requirements

Generally, the Authority complied with Recovery Act requirements to obligate capital funds for appropriate, prudent, eligible, supported projects to meet the obligation deadline and to ensure compliant procurements, and make disbursements in a timely fashion. It obligated funds to procure the services of an architect and contractor to construct a new office building and replace siding for 18 buildings at the Courtyard Apartments. While the Authority generally met the requirements of the Recovery Act, it did not completely comply with requirements to execute contracts within the confines of the Recovery Act award amount and budget appropriately for projects it undertook. The Authority should implement procedures to correct these oversights.

The Authority Obligated Its Funds in a Timely Manner

In accordance with the Recovery Act requirements, the Authority obligated its grant funds before the March 17, 2010, deadline.³ It obligated \$72,300 for an architect and \$744,000 for a construction contractor. The Authority expected to complete the construction of the management office building and siding replacement before the Recovery Act deadlines.⁴ As of December 2010, it had expended more than 55 percent of its funds and appeared to have completed the work appropriately.

The Authority Contracted for More Than the Grant Amount

While the Authority complied with procurement requirements, it obligated approximately \$23,000 more than it received for architectural and construction services. Specifically, the \$816,300 total value of the two contracts exceeded the authorized Recovery Act award amount of \$792,888. According to the Authority, it would fund the excess obligation from either its regular fiscal year 2009 Capital Fund or operating budget funds. HUD should require the Authority to use existing funds to cover the more than \$23,000 that it over-obligated from its Recovery Act

³ The Authority obligated all formula grant funds by February 28, 2010.

⁴ The Recovery Act required deadlines for expenditures at 60 and 100 percent for March 17, 2011 and 2012, respectively.

funds. The Authority should implement procurement and accounting procedures to ensure that it does not over-obligate funds.

The Authority Did Not Budget Properly To Include Reasonable Costs for Its Approved Plans

The Authority's contract amount represented a significant increase of \$500,500 from prior budgeted amounts in its 2008 plan. According to HUD, the Authority had not conducted a physical needs assessment in more than 5 years. HUD expected the amounts in the budget to be reasonable estimates.⁵ In this instance, the actual cost of the activities exceeded the budgeted estimate by more than 200 percent. The Authority should implement procedures to ensure that the amounts presented in its submitted plans are reasonable.

Conclusion

The Authority complied with Recovery Act requirements to obligate capital funds for appropriate, prudent, eligible, and supported projects to meet the obligation deadline, ensure compliant procurements, and make disbursements in a timely fashion. It obligated funds to procure the services of an architect and contractor to construct a new office building and replace siding for 18 buildings at the Courtyard Apartments with minimal exceptions. However, it did not comply with all requirements and could strengthen its administration by implementing additional procurement and accounting procedures. The Authority did not execute contracts within award amounts or budget amounts reasonably in its approved action plans.

Recommendations

We recommend that the Director, Office of Public Housing, require the Authority to

- 1A. Implement procurement and accounting procedures to ensure that it executes contracts within the Recovery Act award amount and budgets amounts reasonably in its action plan and annual statements.
- 1B. Obligate from existing funds \$23,412 to cover its contracts.

⁵ HUD does not provide specific guidance for budgeting items in the plan, only that all "large capital items" be listed and that the budgets and expected funding estimates be based on what a public housing agency has previously received.

SCOPE AND METHODOLOGY

We conducted the audit from July through December 2010, at both the West Memphis Housing Authority office at 2820 E. Harrison Avenue in West Memphis, AR, and the Fort Worth, TX, regional HUD Office of Inspector General (OIG) office. The audit period was January 1 to March 17, 2010. We expanded the scope of the review to December 2010, to report the Authority's Recovery Act disbursements.

To accomplish the objective, we

- Reviewed and obtained an understanding of the Recovery Act legislation, relevant Capital Fund program guidance and criteria, grant agreements, and the Authority's policies and procedures to carry out its planned activities.
- Interviewed the Authority's management and staff and HUD staff to obtain an understanding of the Authority's background, Recovery Act grant, and operations.
- Analyzed and reviewed the Authority's audited financial statements.
- Analyzed and reviewed HUD reviews of the Authority's Recovery Act activities.
- Analyzed and reviewed the Authority's annual statement, action plans, and required budget submissions to HUD.
- Reviewed Authority board meeting minutes.
- Conducted site visits and inspected the office building site and a sample of siding replacement sites.
- Analyzed obligations and contracts to determine eligibility.
- Analyzed the Authority's compliance with reporting requirements.

We reviewed the Authority's architect and construction contracts to determine whether they were appropriate and complied with the Recovery Act. The construction of the office building was underway, and the siding replacement work had not been scheduled. For the site visit, we observed the office building construction site with the foreman and Authority staff to obtain an understanding of the progress of the work. We randomly selected five buildings from a universe of 18 buildings for inspection and determined that the buildings needed siding replacement.

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 Authority has established to make obligations and procure contracts to ensure compliance and meet the requirements of the Recovery Act.

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 on 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.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>
1B	\$23,412

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

December 14, 2010

Mr. Gerald R. Kirkland
U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

RE: WEST MEMPHIS HOUSING AUTHORITY ARRA AUDIT

Dear Mr. Kirkland:

This letter is in response to the results of your audit received in our office December 9, 2010. We will address each comment concisely and in order as directed on page 12 of the audit results.

Comment 1

1. We will meet all required expenditure deadlines for this program.

Comment 2

2. While the Authority tried to stay within the confines of the ARRA budget, it was not feasible given that we were only estimating the costs. As is typical with all Capital Fund Program expenditures, we are allowed to supplement the construction in order to avoid taking deductive alternates. This results in more benefits to the residents of the West Memphis Housing Authority.

As you know, it would be impossible to competitively bid a construction job exactly within the confines of the ARRA grant. Therefore, we chose to supplement it with either 2009 CFP or Operating funds when the time comes. This is fully allowed and understood by the Little Rock HUD Field Office.

Documentation for the obligation of the \$23,412 to our 2009 Capital Fund Program is attached for your review and files.

Comment 3

3. The Authority did meet the Recovery Act requirements before we proceeded with the project. As mentioned, the office and siding were in both the 2007 and 2008 Capital Fund Program Five-Year Plans. They were not in the 2009 regular Capital Fund Program budget because the 2009 plan is not due to HUD until April each year given that our Fiscal Year ends June 30th. As described in the "Background and Objective" section of your report, President Obama signed the Recovery Act on February 17, 2009. In March of 2009, the Authority adopted a resolution to accept the \$792,888 and a plan was due to the Field Office.

This ARRA or Recovery Act plan used “fungibility” to move the office and siding from the previously approved and adopted 2007 and 2008 Capital Fund Programs. There was no need to put these items anywhere in the regular 2009 Capital Fund Program since this grant allowed us the opportunity to address them. We did in fact ensure that our Recovery Act grant and the 2009 CFP were consistent with the Five-Year Plan for the Authority.

Comment 4

4. This comment needs to be addressed twofold:
 - a. The previously identified amount of \$500,500 for the office identified in the latter years of the Five-Year Plan was only an educated guess. We were more interested in having the item identified than trying to put an actual figure in the plan. Without the ARRA grant, we probably could not have accomplished the construction of the much needed office. A “true” cost estimate was prepared by the architect, and the bid was evaluated against it to ensure reasonableness. This estimate was provided to the [REDACTED] as well.
 - b. The Arkansas housing authorities have been advised to wait for forthcoming instructions before performing another physical needs assessment.

Comment 4

5. The Housing Authority implements accounting and procurement procedures to the best of our ability, and we feel that the contracts were executed appropriately, consistently and within the budgets developed as previously discussed.

**Comment 2
Comment 4**

6. We feel that we have addressed and cleared up any misunderstanding stated in items 1A and 1B.

Sincerely,

Timothy White
Executive Director

CC: Johnny Wooley, Little Rock, AR HUD Field Office
Mitchell Warren, Arkansas HUD Field Office
Randy Hoeschen, Ledford Engineering and Planning

OIG Evaluation of Auditee Comments

- Comment 1** We acknowledged the Authority's expectation to meet all required expenditure deadlines for this program.
- Comment 2** The Authority's response and corrective action to obligate funds is adequate to resolve Recommendation 1B. We will close this recommendation concurrent with the report issuance.
- Comment 3** We removed this issue from the report.
- Comment 4** We maintain the Authority should implement procedures to ensure that it reasonably estimates costs in its budgeted plans. In this instance, the Authority contracted in excess of 200 percent of budgeted amounts.