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TO: Floyd R. Duran, Program Center Coordinator, Office of Public Housing, 6BPHO

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

SUBJECT: Albuquerque Housing Services, Albuquerque, NM, Mismanaged Its Recovery Act Funding

HIGHLIGHTS

What We Audited and Why

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we audited Albuquerque Housing Services' (Housing Services) Public Housing Capital Fund Stimulus (formula) Recovery Act-funded activities. Our audit objectives were to determine whether Housing Services (1) properly obligated and expended its Recovery Act formula grant in accordance with requirements, (2) followed the Recovery Act requirements when procuring contracts for goods or services, (3) maintained inventory controls over its fixed assets to ensure that Recovery Act funds were used efficiently, and (4) accurately reported its Recovery Act activities.

What We Found

Housing Services mismanaged its Recovery Act formula grant. Specifically, it did not properly obligate its Recovery Act formula grant in accordance with requirements, did not ensure that proper approval was obtained for disbursements exceeding \$25,000, did not properly procure contracts, and did not maintain inventory controls over its fixed assets. However, it did ensure that expenditures were properly supported, and it properly reported its Recovery Act activities.

Housing Services mismanaged its grant because its management disregarded Federal and City of Albuquerque (City) requirements and lacked policies to ensure compliance. As a result, Housing Services entire grant of more than \$1.8 million was ineligible and unsupported.

What We Recommend

We recommend that the U. S. Department of Housing and Urban Development (HUD) rescind more than \$1 million in ineligible costs and deposit those funds with the U.S. Treasury in accordance with the Recovery Act as amended. Further, HUD should require Housing Services to support or repay to the U.S. Treasury \$711,294 in unsupported costs and adopt policies, procedures, and internal controls. Additionally, HUD should place Housing Services under direct review for procurements and provide technical assistance and monitoring.

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 issued a draft report to Housing Services, its board, the City Purchasing Division, and HUD on March 22, 2011. We requested written comments by March 30, 2011. We conducted an exit conference with Housing Services, various other City departments, and HUD on March 28, 2011. Housing Services received an extension of time to provide written comments to and provided them on April 4, 2011. Housing Services both agreed and disagreed with the report. 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 OBJECTIVES

The City of Albuquerque (City) has provided assistance as a public housing agency since 1967. The public housing agency is currently called Albuquerque Housing Services (Housing Services) and is a division of the City's Department of Family and Community Services (Community Services). The City's mayor appointed the director of Community Services to govern and serve as the entire board of Housing Services. The City hired a manager (executive director) to oversee Housing Services' day-to-day operations. Housing Services' purpose is to provide decent and safe housing designed to help low- and moderate-income citizens with housing, rent subsidies, housing rehabilitation, housing opportunities, and self-sufficiency. Housing Services owns and manages 953 housing units located on 28 development sites throughout Albuquerque. It maintains its office and records at 1840 University, Southeast, Albuquerque, NM.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) into law.¹ The Recovery Act provided \$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.

Housing Services receives capital funds annually from the U. S. Department of Housing and Urban Development (HUD). HUD allocated more than \$1.8 million to Housing Services for its Recovery Act Public Housing Capital Fund formula grant (formula grant). HUD made the formula grant available to Housing Services on March 18, 2009, resulting in a statutory obligation deadline of March 17, 2010. If Housing Services failed to comply with the obligation deadline, the Recovery Act required HUD to recapture those obligations that did not meet the deadline and return the funds to the U.S. Treasury for the sole purpose of deficit reduction.²

HUD required Housing Services to use its Recovery Act grant on eligible activities already identified in either its annual statement or Five-Year Action Plan (action plan). Additionally, HUD required Housing Services to prioritize capital projects that were already underway or were included in the action plan. If Housing Services decided to undertake work items not in its approved plans, it was required to amend its approved plans. It was also required to provide a physical needs assessment, as specified by HUD, when using funds from the Recovery Act grant.

Our audit objectives were to determine whether Housing Services (1) properly obligated and expended its Recovery Act capital funds in accordance with requirements, (2) followed the Recovery Act requirements when procuring contracts for goods or services, (3) maintained inventory controls over its fixed assets to ensure that Recovery Act funds were used efficiently, and (4) accurately reported its Recovery Act activities.

¹ Public Law 111-5

² The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) amended the Recovery Act, requiring recaptured funds to be returned to the U.S. Treasury and dedicated for the sole purpose of deficit reduction.

RESULTS OF AUDIT

Finding 1: Housing Services Mismanaged Its Recovery Act Obligations and Disbursements

Housing Services properly supported its Recovery Act formula grant expenditures; however, it mismanaged its obligations and disbursements because it did not properly obligate the funds and ensure that proper approval was obtained for some disbursements. Specifically, Housing Services' management mismanaged its obligations and disbursements because it did not understand obligation requirements, lacked policy providing direction, and lacked proper oversight and controls. As a result, Housing Services entered its obligations into HUD's Line of Credit Control System (LOCCS) too soon, had not obligated \$287,782 by the Recovery Act obligation deadline date of March 17, 2010, entered into contract obligations totaling \$316,988 after the Recovery Act obligation deadline, and failed to obtain proper signature approval on disbursements exceeding \$25,000.

Housing Services Could Not Support Its Obligations

The Recovery Act requirements stated that public housing agencies must obligate 100 percent of the formula grant within 1 year of the effective date (March 18, 2009) and all unobligated funds would be recaptured 1 year after the effective date. Further, public housing authorities were required to expend at least 60 percent of the grant within 2 years and 100 percent of the grant within 3 years of the effective date. Any funds that did not meet the required percentages within the effective dates were to be recaptured. According to Federal requirements, an obligation occurs when an order is placed, a contract or subgrant is awarded, and goods and services are received.³

Housing Services made entries into HUD LOCCS on April 30, 2009, stating that its entire Recovery Act formula grant was obligated. However, 45 of its 50 contracts (90 percent) were dated after the April obligation date in LOCCS. This condition occurred because Housing Services did not understand the basic concepts of an obligation or contract and lacked operating procedures. As a result, it obligated its formula grant in LOCCS too soon and without the proper support.

³ 24 CFR 85.3 Definitions

Formula Grant Funds Were Not Properly Obligated

HUD awarded Housing Services more than \$1.8 million in Recovery Act formula grant funds. Housing Services had a rough budget and a spreadsheet indicating how it obligated its funds. Reviewing its contracts showed that it did not obligate its grant funds in a timely manner. As table 1 shows, it had not obligated \$287,782 by the Recovery Act obligation deadline date of March 17, 2010.

Table 1: Total funds unobligated by Recovery Act deadline

Description	Amount
Recovery Act formula grant award	\$1,802,128
Less	
Amount obligated by 3/17/2010	(\$1,480,841)
Administration amount ⁴	(\$33,505)
Total obligated	(\$1,514,346)
Total unobligated	\$287,782

Twelve Contracts Were Dated After the Deadline

Housing Services awarded 12 contracts worth \$316,988 after the Recovery Act obligation deadline of March 17, 2010. As shown in table 2, the contracts ranged from a few days to more than 7 months after the deadline.

Table 2: Contracts awarded after the obligation deadline of March 17, 2010

Type of work	Development	Contract date	Months after 3/17/2010	Cost
Roof replacement change order	LaPlata	3/22/2010	<1	\$9,699.54
Roof replacements	Fruit	3/25/2010	<1	\$174,478.19
Water heater replacement change orders	Roma	4/2/2010	<1	\$1,143.80
Evaporator cooler replacement	Fruit	4/8/2010	<1	\$93,936.00
Furnace replacement change order	Fruit	5/17/2010	2	\$6,798.00
Ceiling repairs ⁵	LaPlata	5/20/2010	2	\$2,414.00
Water valve replacement change order	60 th St.	7/29/2010	4	\$2,736.00
Water heater replacement change orders	Don Gabal	8/7/2010	4.5	\$425.00
Water heater replacement change orders	60 th St.	8/25/2010	5	\$13,980.96
Furnace replacement change order	Commanche	9/16/2010	6	\$6,818.60
Water heater replacement change orders	Sunset Gardens	9/21/2010	6	\$2,292.00
Furnace replacement change order	General Bradley	10/29/2010	7.5	\$2,266.00
Total				\$316,988.09

⁴ Amount reported by Housing Services in LOCCS as administration, budget line item 1410.

⁵ This was a small purchase to repair ceiling work damage caused by another contractor. The invoice date for this repair was used as the contract date.

The amount exceeded the amount previously reported as unobligated before the deadline as Housing Services apparently used its administrative fee to fund contract change orders. Since Housing Services awarded these contracts after the Recovery Act deadline, \$316,988 was ineligible.

Housing Services Did Not Understand Obligations or Contracting

Housing Services did not understand when an obligation occurred and as explained in finding 2, did not follow the City's contracts. As shown in table 2, awards and/or signed agreements between Housing Services and a contractor to perform requested work were not executed until after the deadline. The executive director stated that funds were obligated when the contractor was in place and ready to do the work, not at contract signing. He further stated that when the City had a contractor on file, he could immediately obligate the funds, because when a contract existed for the City, it also existed for Housing Services. As explained in finding 2, Housing Services did not follow the City's contracts; thus, an obligation did not occur until it entered into agreements with the contractors. Further, the director of Community Services did not provide adequate oversight of Housing Services' obligation of Recovery Act funds. Although the director of Community Services served as the board, there were no written meeting minutes to document her oversight. The new director of Community Services stated that she relied on the Housing Services' executive director to oversee operations.

Disbursements Were Generally Supported

Housing Services generally ensured that disbursements were promptly paid and adequately supported. It provided payments to its contractors on a timely basis. Once an invoice was received from the contractor and all work was cleared for payment, Housing Services would submit a request to HUD for drawdown of funds for disbursement to the contractor. It generally issued checks to the contractors 2 days after drawdown of funds. In addition, all checks issued matched the invoices received and were paid to the appropriate contractors.

Proper Signature Authority for Disbursements Was Not Obtained

On December 31, 2009, the new director of Community Services signed a “Delegation of Requisition Signature Authority” requiring Housing Services’ executive director to obtain signature approval on all purchase requisitions, disbursements, and purchase order adjustments exceeding \$25,000. The director of Community Services did not sign requisitions, but her signature was on all original purchase orders exceeding the limit. A review of all 13 disbursements exceeding \$25,000 showed that her signature was not on any of them. Some of the disbursements materially exceeded the limit, as 3 of the 13 disbursements exceeded \$100,000. This condition occurred because the director of Community Services stated that she would only approve purchase orders exceeding the set limit, and, thereafter, Housing Services’ executive director was authorized to sign off on the necessary documents to process the payments contemplated by the purchase order. However, this verbal policy was not documented and was in direct conflict with the written signature authority. As a result, the director of Community Services did not provide adequate oversight of Housing Services’ disbursements in excess of \$25,000.

Housing Services Lacked Policies and Segregation of Duties

Housing Services lacked policies and procedures that would provide the appropriate directions for its staff to obligate funds and ensure that disbursements were made according to Recovery Act, Federal, and City requirements. Further, Housing Services had no written policy or standard operating procedures. The executive director stated that Housing Services was required to follow the City’s policies, including using the City’s purchasing contracts as detailed in finding 2, but he failed to ensure that he or his staff followed the City’s policies. Further, Housing Services lacked adequate segregation of duties as the executive director was heavily involved in making purchases and directing payments and his actions were not properly overseen by the director of Community Services.

Conclusion

Housing Services mismanaged its Recovery Act formula grant. It failed to properly obligate its Recovery Act funds as it did not have an understanding of Recovery Act and Federal requirements. As a result, it entered its obligations into LOCCS too soon, entered into contracts after the Recovery Act deadline, and

failed to obtain proper signature approval of disbursements in excess of \$25,000. This condition occurred because Housing Services did not follow Recovery Act, Federal, and City requirements and it lacked proper oversight and controls.

Recommendations

We recommend that the Program Center Coordinator, Office of Public and Indian Housing,

- 1A. Recapture the \$316,988 in ineligible Recovery Act grant funds that was obligated after the required date and return the funds to the U.S. Treasury in accordance with the Recovery Act, as amended, for the sole purpose of deficit reduction.
- 1B. Require Housing Services to adopt and implement policies and procedures regarding its obligations and implement those procedures already in place regarding disbursements to ensure that proper oversight is provided by Housing Services' board.
- 1C. Provide additional monitoring of Housing Services' obligations and disbursements to ensure that it complies with Recovery Act and Federal requirements.

Finding 2: Housing Services Failed To Properly Procure Recovery Act-Funded Contracts

Because Housing Services' management disregarded Federal and City requirements, it failed to properly procure its Recovery Act formula grant-funded contracts. As a result, the entire formula grant amount of more than \$1.8 million was ineligible and unsupported.

Housing Services Did Not Adopt a Recovery Act-Compliant Procurement Policy

The Recovery Act and HUD required that public housing agencies amend their procurement standards so that they complied with Recovery Act and Federal requirements, including the "Buy American" provisions and the use of Energy Star products and appliances. Housing Services did not ensure that the procurement policy it used complied with the requirements.

Housing Services' executive director stated that Housing Services did not have its own procurement policy and that it followed the City's policy. He further stated that he was verbally told by the prior director of Community Services that the City would not adopt the requirements and that Housing Services would have to use the vendors currently under City contract. However, Housing Services did have its own procurement policy, dated 1991, but no one in Housing Services or Community Services was aware of it until our audit. In addition, the Purchasing Division stated that it had told Housing Services that it could incorporate Recovery Act requirements into its procurements if Housing Services would provide them. Further, it warned Housing Services in April 2010 that its contracts did not follow Recovery Act requirements and that it should have performed a solicitation months earlier to ensure that the requirements were met. Thus, Housing Services disregarded Recovery Act and Federal procurement policy requirements when it made its Recovery Act procurements. Since the Authority did not properly procure the contracts, it did not have valid obligations by the March 17, 2010 Recovery Act deadline. Thus, the funds must be repaid to the U.S. Treasury.

Housing Services Did Not Properly Plan Its Recovery Act Procurements

HUD allowed public housing agencies to use formula grant funds on eligible activities identified in the public housing agency's annual statement or action plan. HUD allowed for revisions to the action plan if there were insufficient work items for the amount of funds provided. Upon receiving notice of the Recovery Act formula grant funding, Housing Services prepared a handwritten ledger sheet listing

items needing repair such as roofs, furnaces, evaporative coolers, water heaters, and water shutoff valves; their location; and the estimated cost. However, as discussed more fully in finding 3, Housing Services did not have a fixed asset inventory or other method to support how it determined which units would receive Recovery Act funding. Housing Services' annual statement and action plan also did not contain sufficient detail regarding which units had previously been budgeted to receive funding to correct deferred maintenance or perform major work. When listing a development number and name for major repairs in its 2009 and 2010 plans, it listed "all" for repairs such as coolers, heaters, and water heaters completed in 2006, 2007, and 2008 and "all" for replacing items like roofs, air handling, and appliances in 2009, 2010, 2011, and 2012. Further, its budget for the 2009 Recovery Act grant listed "agency wide" for water turnoff valves, roof replacements, heaters, coolers, and water heaters. Additionally, Housing Services had no written policy or procedures concerning planning major repairs, performing cost estimates, budgeting for grant expenditures, or tracking its fixed assets. As a result, Housing Services could not show that it prioritized capital projects and used the funds in an efficient manner.

Housing Services' Did Not Ensure That Some Products Were Energy Efficient

When purchasing energy products under the Recovery Act, housing agencies were to ensure that they purchased Energy Star products or Federal Energy Management Program (FEMP) designated products unless the purchase of an energy-efficient appliance was not cost effective to the agency. Housing Services stated both verbally and on its Web site that its purchases complied with the requirements. As shown in table 3, a review of its contracts and the products purchased showed that none of its furnace purchases and none of its water heater contracts, which totaled to \$807,570, complied with the requirements. However, some of the water heaters that did not comply with the requirements had not been purchased because the contractor had not started the work at the time of the audit. Thus, Housing Services may still be able to avoid this deficiency for \$70,162 worth of water heaters.

Table 3: Housing Services' compliance with FEMP

Product	Product's efficiency rating	FEMP standard	Met FEMP (Y or N)	Cost
Evaporator coolers - Mastercool	None	None	NA*	\$151,175
Total of purchased products that complied				\$151,175
Water heaters – AO Smith	59%	62%	N	\$185,474
Water heaters – Bradford White	61% and 59%	62%	N	\$94,988
Furnaces – Tempstar	80%	90%	N	\$456,946
Total of purchased products that did not comply				\$737,408
Water heaters – AO Smith	59%	62%	N	\$70,162
Total of contracted but not purchased products that did not comply				\$70,162
Grand total of products that did not comply				\$807,570

*Not applicable

Since the products did not meet Federal requirements, Housing Services payments and obligations of \$807,570 for the noncompliant products were ineligible. However, furnace costs of \$15,883 and water heater costs of \$17,842 were already determined to be ineligible, as Housing Services entered into obligations for these products after the Recovery Act deadline (see finding 1); thus, only \$773,846 of this \$807,570 needs to be repaid.

Housing Services Improperly Used the City's Contracts

Housing Services stated that it awarded its Recovery Act contracts by using the City's contracts. HUD had previously requested these contracts, but Housing Services did not provide them. The City's Purchasing Division provided the various contracts for review. The City had contracts to provide roofing; heating, ventilating, and air conditioning (HVAC) maintenance; and plumbing services. The City had primary and secondary roofing and plumbing services contractors available for Housing Services. The City also had primary, secondary, and tertiary HVAC preventative maintenance contractors; however, the City had also awarded a separate contract to provide HVAC services for Housing Services. To award contracts, Housing Services prepared a request for proposal or quote and sent it to one or more of the contractors under contract with the City.

Comparing Housing Services' available requests for proposals and quotes and its contracts to the City's contracts showed that its procurements did not comply with the language and requirements in the City's contracts.

Scope of Services Requested Was Not Consistent With the City's Contracts

Housing Services did not ensure that its requests for proposals and quotes and its contracts were limited to services and materials in the City's contracts for plumbing and roofing. The City's plumbing contract was structured toward repairs and replacement; however, Housing Services sought the installation of new water shutoff valves at 196 units and the installation of new gas water heaters at 404 units. The City's roofing contract provided for different types of roofing materials from those sought by Housing Services in its requests for quotes. Further, a roofing contractor stated that Housing Services' capital fund grant coordinator said that Housing Services wanted a change in the scope of work to obtain an upgrade that would provide a better roof than was found in the City's contract. However, the coordinator disagreed this occurred, but documentation shows that Housing Services purchased a roofing product with more plies than are in the City's contract. Thus, Housing Services knew that it was not following the City's contract requirements.

City's Contract Pricing Methodologies Were Not Followed

Housing Services did not ensure that its requests for proposals and quotes and its contracts used the same pricing methodologies as those that were in the City's contract. The City's contract for roofing included pricing at a per square foot cost; however, none of Housing Services' requests or contracts used this methodology. Instead, Housing Services' requests and contracts sought either a total based on total labor, total material, and totals for all other applicable costs or a grand total. In addition, the City's contracts for HVAC and plumbing were all based on hourly labor rates and materials, yet none of Housing Services' plumbing or HVAC requests or contracts were priced that way.

Since the services it acquired were different from the scope of services in the City's contracts and used different pricing methodologies, Housing Services did not properly use the contracts. It should have followed Federal and City procurement policies and sought competitive sealed bids to ensure full competition and the best price. Since it did not, all procurements, which totaled \$1,797,829, were unsupported.

Housing Services Mismanaged Its Request Process

Housing Services did not properly manage its request for proposals or request for quotes process. Testing of all of its contract files showed missing requests, dating issues, acceptance issues, and a failure to include Recovery Act and HUD requirements.

Requests Were Missing and Lacked Information

Housing Services did not provide requests for proposals or quotes for 16 (32 percent) of the 50 contracts it awarded. Some of the requests for proposals and quotes were used for multiple contracts, resulting in fewer requests than contracts awarded. Thus, only 11 requests were found for the remaining 34 contracts. Six of its 11 proposals mentioned the Recovery Act and HUD requirements and 3 mentioned just the Recovery Act; however, details such as “Buy American” and Energy Star requirements were absent. The remaining two proposals did not mention either the Recovery Act or HUD requirements.

Requests Had Significant Dating and Acceptance Issues

Housing Services made serious errors in its request process. It did not put issuance dates on any of its requests for proposals and requests for quotes. It also did not put submission deadlines on 7 of the 11 requests reviewed; however, e-mails providing deadlines were found for 4 of the 7 requests. Further, in two cases, it accepted the quotes and entered into two contracts before the submission deadline. In two other cases, it accepted a proposal dated 12 days and a quote dated 38 days after the submission deadline. In addition, Housing Services accepted three quotes for furnace replacements, which resulted in eight contracts, although the quotes did not follow the required pricing methodology in the request. It also dated a contract March 25, 2010, although it stated in e-mails that the new submission deadline was March 26, 2010, and a later e-mail stated that it was still negotiating the contractor’s proposal and the award on April 29, 2010.

Housing Services’ Contracting Process Was Lacking

Housing Services did not ensure that its contracting process met requirements. A total of 16 of 50 contracts awarded, totaling \$653,554, were not signed by both parties. Housing Services also did not ensure that all purchase order changes or requisitions were signed.

Housing Services Did Not Follow Small Purchase Procedures

Housing Services made two Recovery Act-funded purchases using small purchase methods. One purchase totaling \$2,414 was to repair damages caused by another contractor, and the other totaling almost \$1,079 was to purchase new thermostats. Neither purchase met Federal or City requirements as Housing Services could not show that it had competitively made the purchases by obtaining three quotes. As further explained in finding 1, one purchase was ineligible as it was improperly

made after the obligation deadline. Thus, the second purchase of \$1,079 was unsupported as Housing Services could not document that it followed Federal requirements.

Housing Services' Procurement Documentation Was Inadequate

Although Federal regulations required it to have files that were sufficient to detail the history of its procurements, Housing Services did not maintain adequate procurement files. Its procurement files were missing documents, contradictory, and unorganized. Missing information included requests for proposals or quotes, requisitions, purchase orders, and signed contracts. The capital fund grant coordinator stated that some information was missing due to a data disk becoming corrupted.

Housing Services' Management Disregarded Requirements

Housing Services did not comply with Recovery Act, Federal, and City procurement requirements due to its management and staff disregarding the requirements. Interviews with Housing Services, the Purchasing Division, and contractors showed that Housing Services was aware of the various requirements but did not follow them. Housing Services also lacked written policies, procedures, and internal controls. Its staff had no written guidance outlining what was required for a procurement or a procurement file. Strong internal controls, including a clear segregation of duties, which would have limited Housing Services' ability to disregard requirements, did not exist. Housing Services' failure to follow the requirements or adopt policies, procedures, and controls went undetected because the directors of Community Services did not provide sufficient oversight as the board of Housing Services. The board never held official meetings, and the current director of Community Services relied on the executive director to ensure that Housing Services operated in compliance with requirements.

Housing Services' Management Had Changed

Housing Services underwent management changes during the audit. The prior executive director retired at the end of January 2011, and a new executive director started in February 2011. The new executive director was briefed on the issues and stated that they would be addressed. In addition, Housing Services indicated that in July 2011 it would separate from the City and become a separate entity.

Conclusion

Since Housing Services' management disregarded Recovery Act, Federal, and City requirements, it failed to properly procure its Recovery Act formula grant-funded contracts. As a result, the entire formula grant amount of more than \$1.8 million was ineligible and unsupported.

Recommendations

We recommend that the Program Center Coordinator, Office of Public and Indian Housing,

- 2A. Require Housing Services to repay to the U.S. Treasury the \$773,846 obligated or spent on products that were not Energy Star or FEMP compliant and that had not been previously determined ineligible due to being obligated after the statutory deadline.
- 2B. Require Housing Services to support or repay to the U.S. Treasury Recovery Act procurements totaling \$711,294⁶ that were not determined ineligible but which did not meet Recovery Act, Federal, or City procurement requirements.
- 2C. Require Housing Services to create, adopt, and implement a procurement policy and internal controls that meet Federal requirements.
- 2D. Place Housing Services under a direct review for its procurements, which would restrict its ability to enter into contracts.
- 2E. Provide technical assistance to and perform monitoring of Housing Services to ensure that it complies with Federal procurement requirements.

⁶ Total represents all procurements totaling \$1,797,829 plus its remaining administration amount of \$4,299, less ineligible obligations after the deadline (\$316,988) and ineligible products that did not meet FEMP (\$773,846).

Finding 3: Housing Services Lacked Inventory Controls Over Its Fixed Assets

Housing Services did not have controls over, maintain accountability for, or safeguard its fixed assets. Specifically, it did not (1) know the estimated useful life of its fixed assets, (2) have a fixed asset disposal process, and (3) have a system to track and determine which fixed assets to replace to ensure that Recovery Act funds were used in an effective and efficient manner. Housing Services lacked these controls because it did not realize that they were required, did not know how to determine an asset's useful life, and did not properly plan for its capital improvements. As a result, Housing Services disposed of replaced assets that may have had a remaining useful life, may have replaced assets before the end of their useful life, and performed replacements without a system that prioritized units that had deferred maintenance needs.

Housing Services' Physical Inventory Was Inadequate

Housing Services did not have an adequate inventory system or written policy concerning fixed assets. Information entered into its system was incomplete because it did not include proper descriptions, serial numbers, useful asset life, and acquisition and disposal dates. As a result, Housing Services was unable to determine which units had the greatest need for the Recovery Act funds. Further, it could not determine that the assets replaced were at the end of their useful life. Finally, when it disposed of fixed assets, it was unable to determine that the assets disposed of had economic or useful value. Housing Services accepted back some evaporator coolers that its contractor had disposed of in order to use them for parts; however, it did not add them to its parts inventory. This condition occurred because Housing Services had not implemented a system or policy and apparently did not realize the importance of such controls.

Housing Services started tracking Recovery Act purchases by recording the make, model, and acquisition date of the new fixed assets. However, it did not know how to determine the useful life of its fixed assets.

Housing Services Did Not Clearly Identify Capital Improvements Needed

HUD required public housing agencies to prepare an action plan and an annual plan. According to HUD, the action plan is one of the most important documents of a public housing agency as it requires strategic planning to detail the capital improvements that coordinate with the public housing agency's mission, goals, and strategies. HUD's Public Housing Agency (PHA) Plan Desk Guide states that planned capital projects should be grouped by development and planned

activity. It further states that a public housing agency is only required to list large capital items. It recommends listing all items as “the PHA will only be permitted to exercise fungibility...between work items that *are included* in the annual plan.” Housing Services’ plans rarely listed the development, instead they often used “all” or “agency-wide.” Doing this may have allowed Housing Services to move funds, but it impaired its ability to plan its purchase of fixed assets and project modernization. As a result, it did not have a strategic plan to ensure that the Recovery Act funds were used in an effective and efficient manner.

Recommendations

We recommend that the Program Center Coordinator, Office of Public and Indian Housing,

- 3A. Require Housing Services to adopt and implement policies and controls over its fixed assets.
- 3B. Perform additional monitoring and provide technical assistance in the area of fixed assets.
- 3C. Require Housing Services to properly complete its action plan.

SCOPE AND METHODOLOGY

The scope of the audit was Housing Services' Recovery Act Public Housing Capital Fund formula grant obligations made between March 1, 2009, and September 29, 2010. Housing Services obligated its entire grant during this period, so we reviewed activities related to the obligation and expenditure of the grant funds, which generally took place between March 2009 and November 2010. We expanded the scope of the audit as necessary. We performed the work at Housing Services' office at 1840 University Boulevard Southeast, Albuquerque, NM; the City's office at One Civic Plaza, Albuquerque, NM; and our offices in Albuquerque, NM, and Fort Worth, TX, from October 20, 2010, to March 2, 2011.

To accomplish our objectives, we performed the following steps as they related to Housing Services' Recovery Act Public Housing Capital Fund formula grant:

- Reviewed relevant laws, regulations, and HUD guidance.
- Reviewed HUD's 2009 monitoring reports for Housing Services' Recovery Act funds and projects, dated January 14, 2010, and February 12, 2010.
- Reviewed Housing Services' action plan and annual plan for the fiscal year beginning July 2009, the action plan for 2010-2014, and the annual plan for 2010.
- Reviewed the City's audited financial statements for fiscal years starting July 1 and ending June 30 for 2006, 2007, and 2008.
- Reviewed the City's Code of Ordinances, including chapter 5, which dealt with City property, purchase, and sales.
- Reviewed the City's contracts with various contractors that were used by Housing Services.
- Reviewed Housing Services' Recovery Act Public Housing Capital Fund formula grant agreement, procurement policies, procurement records, and invoice payments.
- Reviewed HUD's LOCCS grant detail for Housing Services' Recovery Act grant.
- Reviewed 100 percent of Housing Services' 50 Recovery Act grant contracts.
- Conducted five site visits at four locations, which were selected randomly and included one project for each major project type, to visually verify that work was completed.
- Reviewed Housing Services' procurements to ensure that installed furnaces, water heaters, and evaporative coolers met the efficiency requirements of the Recovery Act.
- Obtained and reviewed an electronic listing of Housing Services' Recovery Act payments from August 5, 2009, to November 17, 2010. We determined that the data were sufficiently reliable to meet our objectives.
- Selected and tested a sample of 10 of 39 obligations made by Housing Services and valued at more than \$1.4 million to determine whether the obligations were included in its action plan. The first two obligations from each of the major contract categories (roofs, furnaces, evaporator coolers, water heaters, and water turnoff valves) were selected. These disbursements were also tested to determine whether invoices matched disbursements and contracts and were properly authorized.
- Reviewed the City's executive instructions on signature authority, including reviewing the various delegations of signature authority to the executive director.

- Reviewed 100 percent of Housing Services' 13 Recovery Act disbursements made after January 1, 2010, which were in excess of \$25,000, to test signature approval.
- Reviewed Housing Services' asset inventory records.
- Interviewed three contractors, Housing Services' staff, the director of the City's Office of Internal Audit and Investigation, the purchase manager and the assistant purchasing manager of the City's Purchasing Division, the current director of Community Services, and HUD staff in Albuquerque, NM.

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 obligations and expenditures related to Recovery Act activities.
- Controls over procurement concerning Recovery Act activities.
- Controls over inventory of its fixed assets.
- Controls over Recovery Act reporting.

We assessed the relevant controls identified above.

A deficiency in internal controls 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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Housing Services mismanaged its Recovery Act obligations (finding 1).
- Housing Services failed to properly procure Recovery Act-funded contracts (finding 2).
- Housing Services lacked inventory controls over its fixed assets (finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1A	\$316,988	
2A	773,846	
2B		\$711,294
Totals	<u>\$1,090,834</u>	<u>\$711,294</u>

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.

2/ 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

April 4, 2011

Theresa A. Carroll, CPA
Assistant Regional Inspector General
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

Re: Response to Audit Report Number: 2011-FW-100X

Dear Ms. Carroll,

COMMENT 1 On November 2, 2010, your office interviewed Albuquerque Housing Services staff and began the preliminary investigation procedure to determine if a full investigation was necessary. On January 5, 2011, a letter was received from your office stating it will be necessary to complete a full audit of the ARRA Grant. On March 23, 2011, the draft audit report was received from your office via email. On March 23, 2011, you telephoned to schedule a meeting for March 28, 2011 at 1:00 pm to discuss the draft audit report. There were 18 persons in attendance and it was agreed that there would be modifications to the draft audit. AHS is not in receipt of the revised draft audit. Shortly after the meeting I received the following email:

Ms. Newman,

This email is to confirm that we have extended the date of your written response to our draft report issued to you on 3/23/2011 from 3/30/2011 to 4/4/2011. As stated in the exit, please provide your comments to us via email on 4/4/2011 or the audit report will issued without them. Further, to comply with handicap accessibility reporting requirements, we need your written response in a word format.

If you have any questions, please contact me.

Sincerely,
Theresa Carroll, CPA
Assistant Regional Inspector General for Audit
Region VI, Fort Worth, Texas

This letter responds to the draft audit received on March 23, 2011.

Finding 1: Housing Services Mismanaged Its Recovery Act Obligations

COMMENT 2 Albuquerque Housing Services agrees \$287,782 was not obligated timely.

COMMENT 3 The following obligated amounts were change orders and should be allowed as a project in progress, since the original obligation date would have been when the two parties agreed on the job and scope:

COMMENT 3

Roof replacement change order	\$ 9,699.54
Water heater replacement change order	\$ 1,143.80
Furnace replacement change order	\$ 6,798.00
Water valve replacement change order	\$ 2,736.00
Water heater replacement change order	\$ 425.00
Water heater replacement change order	\$13,980.96
Furnace replacement change order	\$ 6,818.60
Water heater replacement change order	\$ 2,292.00
Furnace replacement change order	\$ 2,226.00

COMMENT 4 The roof replacement in the amount of \$174,478.19 (obligated 3/25/10) and Evaporator cooler replacement in the amount of \$93,936.00 (obligated 4/8/10); should be allowed to be included as obligated timely. The processes for the roof replacement and Evaporator cooler replacement were in the final stages of contract negotiations.

COMMENT 2 In summary: Albuquerque Housing Services agrees the funds in the amount of \$2,414.00 were not obligated timely.

COMMENT 5 Proper signature authority was exercised during the process of disbursements. Review of the accounts payable files in the accounting department show 15 disbursement exceeding \$25,000, and all had signatures of both the Executive Director for AHS and the Department Director of Family and Community Services. Of the 15 disbursements, there were four that exceeded \$100,000. The disbursements, also known as payments, were signed by the Chief Administrative Officer, David Campbell.

Recommendations to Finding 1:

1A. “Recapture the \$316,988 in ineligible Recovery Act grant funds that was obligated after the required date... in accordance with the Recovery Act, as amended, for the purpose of deficit reduction.”

COMMENT 2 Response: AHS agrees there were funds that need to be recaptured and determine the amount is \$2,414.00.

In the draft report, there is no reference to the date or notice number of the amended Recovery Act for the purpose of deficit reduction.

1B. “Require Housing Services to adopt and implement policies and procedures regarding obligations and implement those procedures already in place regarding disbursements to ensure that proper oversight is provided by Housing Services’ Board.”

COMMENT 6 Response: On July 1, 2011, Albuquerque Housing Services will become Albuquerque Housing Authority. The Authority will be governed by a duly constituted Board of Commissioners appointed by the Mayor of the City of Albuquerque and confirmed by the City Council. The Board shall be required to approve policy and procedures. The first order of business for the Board will be to review and approve procurement policy and procedures.

1C. “Provide additional monitoring of Housing Services’ obligations and disbursement to ensure that it complies with Recovery Act and Federal requirements.”

COMMENT 7 Response: The report requires relinquishment of any extra funds and repayment of unauthorized funds. The grant will be closed once this has occurred and will no longer need additional monitoring.

COMMENT 2 In Summary, Albuquerque Housing Services will pay back the difference between \$287,782 and the current balance plus \$2,414 with an approximate total amount to the treasury of \$138,552.

Finding 2: Housing Services Failed to Properly Procure Recovery Act Funded Contracts

COMMENT 8 The City of Albuquerque procures its contractors annually. AHS uses the contractors with the City of Albuquerque as described in CFR 85.36(5): “To foster greater economy and efficiency, grantees and subgrantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services.”

The Albuquerque Housing Authority Procurement policy was adopted by the Albuquerque City Council on June 4, 1991. Per Section IX (B)(1), “Use of State and Local Governmental Procurement Services”, mirrors the CFR stated above.

COMMENT 8 Below is a spreadsheet that was used to monitor the work progress using the ARRA grant funds.

picture

picture

picture

Recommendations to Finding 2:

2A. “Require Housing Services to repay to the US Treasury the \$773,846 obligated or spent on Products that were not Energy Star or FEMP compliant and that had not been previously determined ineligible due to be obligated after the statutory deadline.”

COMMENT 9 **Response:** The PIH Notice PIH 2000-25(HA) issued July 30, 2009 mentions in paragraph 10, page 7: “...a PHA shall purchase energy efficient appliances which are Energy Star products or FEMP- designated products, unless the purchase of energy efficient appliances is not cost effective to the agency....”

COMMENT 9 The items on the table in the draft report lists water heaters, furnaces and evaporator coolers. Water heaters are not considered an appliance, they are considered plumbing. Furnaces are not considered as an appliance and evaporator coolers do not have any energy ratings.

COMMENT 9 The water heaters were replaced with 30 gallon water heaters due to the limited space in the closet for the item. At the time of contract negotiations, there was not energy efficiency available. The contractors stated to provide Energy Star would cost twice as much and would cause modifications of the closet that housed the water heater, as would the replacement of the furnaces.

2B. Require Housing Services to support or repay the US Treasury Recovery Act procurements totaling \$711,294 that were not determined ineligible but which did not meet Recovery Act, Federal, or City procurement requirements.

COMMENT 10 **Response:** The footnote refers to ineligible products that did not meet FEMP and that amount is \$773,846. The footnote does not provide information on the \$711,294.

AHS will provide documentation to the HUD Field Office to support the dollar amount listed above by June 3, 2011.

2C. Require Housing Services to create, adopt, and implement a procurement policy and internal controls that meet Federal requirements.

COMMENT 6 **Response:** Housing Services has created and adopted a Procurement Policy that was passed by the City Council. The policy will be reviewed for current regulations and presented to the Housing Authority Board of Commissioners for review and approval at their first official meeting in July 2011. It will then be implemented and training provided to those employees who have involvement with the CFP Grants.

2D. Place Housing Services under a direct review for its procurements, which would restrict its ability to enter into contracts.

COMMENT 11 **Response:** AHS is currently under this restriction with the HUD Field Office. Prior to any LOCCS entries, the requests are being reviewed and then approved or denied.

2E. Provide technical assistance to and perform monitoring of Housing Services to ensure that it complies with Federal procurement requirements.

COMMENT 12 Response: AHS will request that the HUD Field Office provide technical assistance and monitoring of the Federal procurement requirements.

Finding 3: Housing Services Lacked Inventory Controls Over its Fixed Assets

Recommendations to Finding 3:

3A. Require Housing Services adopt and implement policies and controls over its fixed assets.

COMMENT 13 Response: The Housing Services software program offers a fixed asset module. The assets are entered into the system that, as of now, consists of 317 pages of assets. The module has not, however, been consistently utilized so there are fields that have no entries. It does provide a starting place and we will complete the listings.

3B. Perform additional monitoring and provide technical assistance in the area of fixed assets.

COMMENT 13 Response: AHS will work with the HUD Field Office to ensure all fixed assets are accounted for properly.

3C. Require Housing Services to properly complete its action plan.

COMMENT 13 Response: AHS will communicate with the HUD Field Office to ensure all items are included in the action plan and collaborate with that office to ensure all steps are being completed properly.

Regards,

Robin Dozier Otten

OIG Evaluation of Auditee Comments

- Comment 1** Housing Services stated that OIG agreed to make modifications to the draft, but it had not received a revised draft. At the exit, OIG agreed to delete one paragraph concerning Housing Services significantly exceeding contract maximum amounts as the City's purchasing officer stated the amounts were more of an estimate at a given point in time rather than a maximum. OIG also agreed to add that Housing Services' program coordinator disagreed that he had told a contractor that the City's contract scope would not be followed. As all the changes were minor, OIG did not state it would provide a revised draft. However, OIG granted an extension for providing a response. In addition, OIG notified the individual, who was the board, of the findings in the audit notification letter issued January 5, 2011, and met with and provided the prior executive director with testing results and finding outlines on January 12, 2011. The board was aware of, but did not attend the meeting. OIG also met the new executive director on February 3, 2011, and briefed her on the findings. The results of the reviews of all 50 contracts were emailed to her and her staff on the same day. At the exit conference, the new executive director stated she had received but not reviewed the information. Thus, Housing Services was aware of the findings and had sufficient time to respond.
- Comment 2** Housing Services stated that it agreed \$287,782 was not obligated timely. However, it stated the funds that needed to be recaptured was \$2,414 or the difference between \$287,782 and the current balance, plus \$2,414, with an approximate total amount to the U.S. Treasury of \$138,552. We disagree. Housing Services' Recovery Act amended annual contribution contract clearly stated that amounts had to be obligated by the deadline and no extensions were allowed. As explained and referenced to the law in the background section of the report, the entire amount must be repaid to the U.S. Treasury for debt reduction, as it was not obligated by the deadline.
- Comment 3** Housing Services stated that some obligated amounts were change orders and should be allowed as a project in progress, since the obligation date would have been when the two parties agreed on the job and scope. We disagree, as the change orders were outside the original scope of work agreed to by both parties. For example, the change orders included items like removing and replacing concrete to repair water leaks at the meter when installing a new water heater, installing new water heaters in order to have the new furnaces meet code inspections, and installing new water cut-off valves in units that had received new water heaters even though it had just installed new exterior water cut-off valves at the units. Further, if on-site reviews of the original scope of work had been performed prior to submission of bids, these issues would have been identified and addressed during the procurement of the work.
- Comment 4:** Housing Services stated that the two contracts for \$174,478 and \$93,936, which were obligated after March 17, 2010, should be allowed, as the contracts were in

the final stages of negotiations. We disagree. The Recovery Act requirements had a statutory obligation deadline date of March 17, 2010, with no exceptions. In June 2009, HUD provided training at Housing Services, which provided a definition of obligation. HUD stated an obligation occurred when work activities have been properly procured and the contract has been signed.

Comment 5: Housing Services stated that proper signature authority was exercised during the process of disbursements that exceeded \$25,000. We disagree. Our review of the disbursements found that the director of Family and Community Services signed the original purchase orders, but she did not sign the disbursements. Instead, a copy of the purchase order with her signature was included in the disbursement package. The director did not appear to understand that signing and approving a purchase order was separate from signing and approving a disbursement of funds.

Comment 6 Housing Services indicated, on July 1, 2011, the first order of business for the newly appointed board of commissioners will be to approve policies and procedures. We acknowledge Housing Services' statement that it will adopt new policies and procedures. However, we do not believe that it should wait several months to implement policies and procedures that prevent HUD funds from being mismanaged.

Comment 7 Housing Services indicated the grant will be closed and no additional monitoring will be needed. We disagree. Due to the significant and material findings, Housing Services needs additional HUD monitoring and oversight.

Comment 8: Housing Services stated the City procured contractors annually and that its procurement policy, which followed federal policy, was adopted on June 4, 1991. It also provided a spreadsheet it stated was used to monitor Recovery Act funds. OIG agreed the City procured contractors; however, Housing Services did not address the finding issues, which concerned it not modifying its procurement policy to include Recovery Act requirements and its failure to properly use the City's contracts. Additionally, the board and Housing Services admitted they were not aware that the 1991 procurement policy existed until our audit. Since it became aware of the policy in November 2010, Housing Services could not have used it to procure Recovery Act contracts and change orders from March 2009 through October 2010. Housing Services previously provided OIG the November 1, 2010 monitoring spreadsheet, which we reviewed during the audit.

Comment 9 Housing Services stated that based on PIH Notice 2009-25 (HA), water heaters, furnaces, and evaporator coolers were not considered appliances. We disagree. The FEMP website describes furnaces and water heaters as appliances. Further, PIH Notice 2009-9 (HA), Using Energy Star to Promote Energy Efficiency in Public Housing, which was issued prior to the Recovery Act grant on March 5, 2009, stated that Energy Star should be selected whenever energy systems, devices, and appliances are replaced unless it is not cost effective to do so.

Housing Services also stated that water heaters were replaced with 30 gallon water heaters due to the limited space in the closet. It also stated that at the time of contract negotiations energy efficiency was not available and the contractors stated that Energy Star would cost twice as much and require modifications of the closets. We disagree. Energy Star products of equivalent size and price were available instead of the water heater and furnace models installed by Housing Services. Further, Housing Services stated the installed furnaces and water heaters met energy efficiency requirements by being 85-90 percent efficient. Yet, none of its appliances met that standard. Additionally, no documentation existed in Housing Services' procurement files indicating that Energy Star was not cost effective.

Comment 10 The finding stated the entire grant was unsupported as Housing Services did not properly procure the contracts. The footnote explanation merely detailed how much of the grant was ineligible and how much was unsupported to prevent duplicate reporting.

Comment 11 This is appropriate action by HUD.

Comment 12 We acknowledge Housing Services' response.

Comment 13 We acknowledge Housing Services' response.