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Audit Report Number	2012-SE-1001
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TO: Harlan Stewart, Director, Office of Public Housing, OAPH

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, OAGA

SUBJECT: The Bellingham Whatcom County Housing Authorities, Bellingham, WA,  
Generally Complied With American Recovery and Reinvestment Act of 2009  
Capital Fund Grant Requirements

## **HIGHLIGHTS**

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

We audited the Bellingham Whatcom County Housing Authorities to determine whether the Authorities' expenditures for three American Recovery and Reinvestment Act of 2009 Public Housing Capital Fund grants were appropriate, eligible, and adequately supported and whether the Authorities made related procurements in accordance with 24 CFR (Code of Federal Regulations) Part 85 and Recovery Act requirements. We selected the Authorities because they received almost \$11 million in Recovery Act Capital Fund grant funds.

### **What We Found**

The Authorities generally ensured that Recovery Act Capital Fund expenditures for its three grants were appropriate, eligible, and adequately supported and that materials and services were properly procured.

## **What We Recommend**

This report contains no recommendations, and no further action is necessary with respect to this report.

## **Auditee's Response**

We provided a draft report to the Authorities on October 5, 2011. The Authorities chose not to comment.

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# BACKGROUND AND OBJECTIVE

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## **Bellingham Whatcom County Housing Authorities**

The Housing Authority of the City of Bellingham began operation in 1945 as a municipal corporation created by the City of Bellingham to provide quality, affordable housing for low- and moderate-income families, elderly households, and persons with disabilities through innovative resource development and responsible stewardship of housing and fiscal resources. The Whatcom County Housing Authority was created by Whatcom County in 1971 to provide affordable housing for Whatcom County outside the City of Bellingham. The Bellingham Whatcom County Housing Authorities are administered by the same staff and governed by the same five-member board of commissioners and have 591 public housing units.

## **Recovery Act Capital Fund Grants**

The American Recovery and Reinvestment Act of 2009 included a \$4 billion appropriation for the Public Housing Capital Fund program, which provides funds annually to public housing agencies for the development, financing, and modernization of public housing developments and management improvements. The Recovery Act required \$3 billion to be distributed as formula grant funds with the remaining \$1 billion to be awarded through a competitive process. Competitive grants were issued in the following categories:

1. Improvements addressing the needs of the elderly or persons with disabilities;
2. Public housing transformation;
3. Gap financing for projects that are stalled due to financing issues; and
4. Creation of energy efficient, green communities.

The U.S. Department of Housing and Urban Development (HUD) awarded the Housing Authority of the City of Bellingham a Recovery Act Capital Fund competition grant of more than \$9.9 million and a Recovery Act Capital Fund formula grant of \$775,500. HUD also awarded the Whatcom County Housing Authority a Recovery Act Capital Fund formula grant of \$159,086.

The City of Bellingham is using its competition grant to create energy-efficient, green communities at its Lincoln Square, Washington Square, and Chuckanut Square public housing developments. Among the upgrades are a green roof; geothermal water heating; solar panels; new boilers, refrigerators, and lighting; and water-saving faucets, toilets, and showerheads. The City used its formula grant to replace the siding and windows on 7 of the 24 units in its Hillside Homes development and install new equipment sheds with new furnaces and water heaters in the 28 units of its Falls Park Homes development. Whatcom County used its formula grant to install new siding and windows on the 18 units in its Baycrest Homes development.

Our objective was to determine whether the Authorities' Recovery Act Capital Fund expenditures were appropriate, eligible, and adequately supported and whether related procurements were made in accordance with 24 CFR (Code of Federal Regulations) Part 85 and Recovery Act requirements.

## RESULTS OF AUDIT

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### The Bellingham Whatcom County Housing Authorities Generally Complied With Recovery Act Capital Fund Requirements

We reviewed the procurement records and project files for the three Recovery Act Capital Fund grants in the table below to determine whether the Authorities' expenditures were appropriate, eligible, and adequately supported and whether related procurements were made in accordance with 24 CFR Part 85 and Recovery Act requirements. We also inspected selected work performed with grant funds (see Scope and Methodology).

Grant number	Housing authority	Grant type	Amount
WA02500000109G	City of Bellingham	Competition	\$9,981,511
WA19S02550109	City of Bellingham	Formula	\$ 775,500
WA19S04150109	Whatcom County	Formula	\$ 159,086

Our review determined that the Authorities adequately documented that Recovery Act Capital Fund expenditures were appropriate, eligible, and supported and that materials and services were properly procured. Our onsite inspections noted no problems with the material or workmanship.

#### Recommendations

This report contains no recommendations, and no further action is necessary with respect to this report.

## SCOPE AND METHODOLOGY

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Our audit period covered March 2009 through June 2011. We reviewed all three of the Authorities' Recovery Act Capital Fund grants totaling almost \$11 million. We performed our fieldwork between July and September 2011 at the Authorities' main office at 208 Unity Street, Bellingham, WA, and selected public housing developments (see below).

To accomplish our objective, we interviewed the Authorities' staff and reviewed their procurement records and project files. We also inspected work funded by the Recovery Act Capital Fund grants.

### **Sample Selection**

We reviewed all architect and general contractor procurement transactions and all draw requests for the Authorities' three Recovery Act Capital Fund grants.

### **Recovery Act Capital Fund Formula Grant Site Inspections**

We inspected the siding and window replacement at all 18 buildings at the Baycrest Homes development and the seven buildings at the Hillside Homes development. We also inspected the equipment shed exteriors of all 28 units at the Falls Park development and the interiors and associated new furnaces and water heaters located in 5 sheds on the property. We selected the 5 sheds from a list of 17 units with minor discrepancies noted by the architect on a postjob inspection.

### **Recovery Act Capital Fund Competition Grant Site Inspections**

We inspected selected work items at Lincoln Square, Washington Square, and Chuckanut Square based on cost. We inspected the green roof, solar panels, boiler replacement, lighting improvements, geothermal water heating, individual electric metering of apartments, acoustic ceiling replacement, and community walkways.

We used HUD's Line of Credit Control System for background information only and did not base any conclusions on these data.

We relied on computer-processed data maintained by the Authorities for tracking Capital Fund activities. Based on our assessment and testing of these data, we concluded that the data were sufficiently reliable for our objective.

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(s). 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:

- The Authorities' policies implemented to reasonably ensure that Recovery Act Capital Fund projects are managed efficiently and effectively.
- The Authorities' policies implemented to reasonably ensure that the Recovery Act Capital Fund program is managed in a manner that is consistent with Recovery Act and HUD requirements.

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.

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