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TO: Carol Ann Roman, Director, Denver Office of Public Housing, 8APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: Trinidad Housing Authority Did Not Always Follow Requirements When
Expending and Reporting Information About Its Recovery Act Capital Funds

HIGHLIGHTS

What We Audited and Why

We reviewed the Trinidad Housing Authority, located in Trinidad, CO. We selected the Authority for review based on a comparison of certain characteristics, like Recovery and Reinvestment Act of 2009 funding amounts, with other housing authorities in the region. Our objective was to determine whether it obligated and expended its formula Recovery Act capital funds in accordance with Recovery Act rules and regulations and whether it properly reported Recovery Act information in FederalReporting.gov.

What We Found

The Authority generally obligated its Recovery Act funds in accordance with Recovery Act rules and regulations, but did not always expend the funds in accordance with Recovery Act rules and regulations. Specifically, it did not perform cost estimates before receiving bids or proposals on its Recovery Act contracts and procurements. Additionally, the Authority used Recovery Act funds to purchase five refrigerators that it did not use.

The Authority did expend at least 60 percent of its grant funds within two years and will expend 100 percent of the grant within three years as required.

The Authority accurately reported the number of jobs created, but it did not accurately report required Recovery Act grant information in FederalReporting.gov.

What We Recommend

We recommend that the Director of the Denver Office of Public Housing (1) provide technical assistance to the Authority to ensure it understands that it is required to perform cost estimates before receiving bids or proposals, (2) require the Authority to send its procurement staff to training to improve proficiency in the procurement process, (3) require the Authority to provide support to show that the costs were reasonable for its Recovery Act Capital Fund contracts and procurements, (4) require the Authority to develop and implement procedures to properly manage its equipment purchases, (5) require the Authority to repay \$2,360 to the U.S. Department of Housing and Urban Development (HUD) for one missing and four inoperable refrigerators, and (6) require the Authority to provide documentation to support the costs it reported in FederalReporting.gov.

The Denver Office of Public Housing concurred with the recommendations and provided its management decisions on November 14, 2011.

Auditee's Response

We provided the discussion draft of the audit report to the Authority on October 28, 2011, and requested a response by November 10, 2011. The Authority generally concurred with the findings and did not provide written comments.

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BACKGROUND AND OBJECTIVES

The Trinidad Housing Authority was established to provide adequate housing for low-income persons in an area that has a shortage of affordable housing. A five-member board of commissioners governs the Authority, and an executive director manages its daily operations. The Authority's administrative offices are located at 128 West First Street, Trinidad, CO.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. This legislation included a \$4 billion appropriation of capital funds to carry out capital and management activities for public housing agencies as authorized under Section 9 of the United States Housing Act of 1937. The Recovery Act requires that \$3 billion of these funds be distributed as formula grants and the remaining \$1 billion be distributed through a competitive grant process. On March 18, 2009, the U.S. Department of Housing and Urban Development (HUD) awarded the Authority a \$444,654 Public Housing Capital Fund stimulus (formula) grant that was Recovery Act funded.

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing Public Housing Capital Fund program grants. For example, the Authority was required to obligate 100 percent of its formula grant funds by March 18, 2010. It is required to expend 100 percent of the grant funds by March 18, 2012. Additionally, the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. The recipient enters project and job information, subaward information, and vendor transaction information into FederalReporting.gov. It is important for the recipients to report this information accurately and in a timely manner, because it is necessary to effectively implement the accountability and transparency reporting requirements of the Recovery Act.

The objectives of the audit were to determine whether the Authority obligated and expended its formula Recovery Act capital funds in accordance with Recovery Act rules and regulations and whether it properly reported Recovery Act information in FederalReporting.gov.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Perform Cost Estimates Before Receiving Bids or Proposals

The Authority did not perform cost estimates before receiving bids or proposals on its Recovery Act contracts and procurements. This condition occurred because the Authority did not know that these analyses were required. As a result, it could not be assured that the amount paid for more than \$353,000 in contracts and procurements was reasonable.

The Authority Did Not Perform Cost Estimates

The Authority did not perform cost estimates before receiving bids or proposals on its Recovery Act contracts and procurements. To determine price reasonableness, the Authority was required by 24 CFR (Code of Federal Regulations) 85.36(f)(1) to perform a cost analysis for every procurement action including contract modifications. At a minimum, the Authority was required to make independent estimates before receiving bids or proposals. All 10 of the Authority's contracts and procurements did not contain an independent cost estimate or other documentation showing that the Authority determined that the cost was reasonable before receiving bids or proposals. The following are the Authority's 10 contracts and procurements and the amounts of those contracts and procurements.

Contracts and procurements	Amount
Retaining walls, basements, and slabs	\$161,563
Kitchen cabinet procurement	\$48,312
Sewer realignment	\$24,900
Electrical work	\$6,240
Accessible walkway contract	\$7,170
Architectural and engineering contract	\$14,085
Refrigerator procurement	\$77,626
Plumbing work contract	\$6,204
Accessibility remodel materials - two contracts	\$7,241
Total	\$353,341

The Authority Did Not Know That Cost Estimates Were Required

The Authority did not know that it was required to perform a cost estimate before receiving bids or proposals. It believed that receiving bids and accepting the lowest bid showed that the costs were reasonable.

The Authority Could Not Assure Price Reasonableness

The Authority could not be assured that the amount paid for more than \$353,000 in contracts and procurements was reasonable. It needs to provide support showing that these costs were reasonable. For any portion of the funds that the Authority cannot support, it should be required to refund HUD with non-Federal funds.

Recommendations

We recommend that the Director of the Denver Office of Public Housing

- 1A. Provide technical assistance to the Authority to ensure that it understands that it is required to perform a cost estimate before receiving bids or proposals.
- 1B. Require the Authority to send its procurement staff to training to improve proficiency in the procurement process.
- 1C. Require the Authority to provide support to show the costs were reasonable for its Recovery Act Capital Fund contracts and procurements totaling \$353,341. For any portion of this amount that the Authority cannot support, the Authority should refund HUD with non-Federal funds.

Finding 2: The Authority Purchased Five Refrigerators With Recovery Act Funds That It Did Not Use

The Authority spent Recovery Act funds to purchase five refrigerators that it did not use. The Authority did not have adequate procedures to effectively manage its equipment purchases. As a result, it incurred \$2,360 in unreasonable costs and could not provide reasonable assurance that these Recovery Act funds were used effectively and efficiently.

The Authority Purchased Refrigerators That It Did Not Use

The Authority used Recovery Act funds to purchase five refrigerators that it did not use. Regulations at 2 CFR 215.21(b)(3) state that recipients shall adequately safeguard assets and ensure that they are used for only authorized purposes.

Of the 198 refrigerators purchased by the Authority using Recovery Act funds, it could not locate one refrigerator and received four inoperable refrigerators from the vendor. Instead of returning the inoperable refrigerators and receiving working replacements or a refund, the Authority stored them in its maintenance warehouse.

The Authority Did Not Have Adequate Procedures

The Authority did not have adequate procedures to effectively manage its equipment purchases. It did not have procedures to ensure that purchased items were properly safeguarded. One of the new refrigerators was left unattended overnight before being placed into service, and it disappeared. The Authority also did not have adequate procedures to resolve problems with its equipment purchases. Four of the refrigerators were received in inoperable condition and should have been exchanged or returned for a refund. Instead, they were placed in the Authority's warehouse. Adequate procedures would have prevented these problems by assigning responsibility to specific employees and directing appropriate actions for those employees to take.

The Authority Incurred Unreasonable Costs

The Authority incurred \$2,360 in unreasonable costs, and it could not provide reasonable assurance that these Recovery Act funds were used effectively and efficiently. It paid \$2,360 for the five refrigerators that it purchased with Recovery Act funds and did not use. These costs are disallowed as the Authority did not act prudently to protect tax-payer interest.

Recommendations

We recommend that the Director of the Denver Office of Public Housing

- 2A. Require the Authority to develop and implement procedures to properly manage its equipment purchases.
- 2B. Require the Authority to repay \$2,360 to HUD with non-Federal funds for the one missing and four inoperable refrigerators.

Finding 3: The Authority Did Not Accurately Report Recovery Act Information

The Authority did not accurately report Recovery Act Capital Fund grant information in FederalReporting.gov. This condition occurred because the Authority did not have adequate controls over maintaining documentation to support and track the costs associated with the Recovery Act grant. As a result, the public did not have access to accurate information related to the Authority's expenditures of Recovery Act capital funds.

Authority Did Not Accurately Report Required Information

The Authority did not accurately report Recovery Act Capital Fund grant information in FederalReporting.gov. Recovery Act grant recipients are required to report the following information to FederalReporting.gov:

- Amount of the Recovery Act grant award,
- Project information for use of the grant funds,
- Number of jobs created or retained with the Recovery Act grant,
- Funds invoiced,
- Funds received,
- Expenditure amounts,
- Listing of vendors receiving Recovery Act funds, and
- Vendor transactions and payments.

For all of the eight quarterly reports submitted during our audit period, the Authority underreported the total amount expended and the number of payments to vendors of less than \$25,000. The Authority underreported the total amount of payments to vendors of less than \$25,000 in seven quarters and overreported this category in one quarter. For the total amount and number of payments to vendors of greater than \$25,000, the Authority underreported in one quarter and overreported in six quarters, and accurately reported in one quarter.

The following tables list what was reported in FederalReporting.gov, the actual expenditures, and the difference between the two numbers.

Total expenditures			
Quarter ending date	Expenditures reported in Federal Reporting.gov	Actual expenditures	Reporting differences *
09/30/2009	\$0	\$7,814	(\$7,814)
12/31/2009	\$89,252	\$102,018	(\$12,766)
03/31/2010	\$250,714	\$267,359	(\$16,645)
06/30/2010	\$356,204	\$ 408,189	(\$51,985)
09/30/2010	\$392,021	\$418,355	(\$26,334)
12/31/2010	\$403,574	\$420,083	(\$16,509)
03/31/2011	\$437,784	\$449,811	(\$12,027)
06/30/2011	\$437,384	\$449,811	(\$12,027)

*() = underreported

Total aggregate number & amount of payments to vendors less than \$25,000					
Quarter ending date	Expenditures reported in Federal Reporting.gov	Actual expenditures	Reporting differences*	Number of payments to vendors reported in Federal Reporting.gov	Actual number of payments
09/30/2009	\$0	\$7,814	(\$7,814)	0	3
12/31/2009	\$0	\$16,004	(\$16,004)	0	8
03/31/2010	\$26,336	\$42,122	(\$15,786)	6	28
06/30/2010	\$54,412	\$98,593	(\$44,181)	25	48
09/30/2010	\$192,247	\$105,382	\$86,865	40	57
12/31/2010	\$71,196	\$105,382	(\$34,186)	36	57
03/31/2011	\$80,283	\$105,382	(\$25,099)	40	57
06/30/2011	\$86,333	\$105,382	(\$19,049)	51	57

*() = underreported

Total aggregate number & amount of payments to vendors greater than \$25,000					
Quarter ending date	Expenditures reported in Federal Reporting.gov	Actual expenditures	Reporting differences*	Number of payments to vendors reported in Federal Reporting.gov	Actual number of payments
09/30/2009	\$0	\$0	\$0	0	0
12/31/2009	\$0	\$76,829	(\$76,829)	0	1
03/31/2010	\$229,984	\$203,648	\$26,336	9	4
06/30/2010	\$333,703	\$272,827	\$60,876	14	6
09/30/2010	\$354,533	\$272,827	\$81,706	15	6
12/31/2010	\$360,134	\$272,827	\$87,307	18	6
03/31/2011	\$360,134	\$272,827	\$87,307	18	6
06/30/2011	\$374,785	\$272,827	\$101,958	24	6

*() = underreported

The Authority Did Not Have Adequate Controls

The Authority did not have adequate controls over maintaining documentation to support and track the costs associated with the Recovery Act grant. The executive director used a spreadsheet to track the amounts she entered into FederalReporting.gov quarterly. However, when comparing this spreadsheet to the supporting documentation, the amounts reported did not always match the support.

The Public Did Not Have Access to Accurate Grant Information

The public did not have access to accurate information related to the Authority's expenditures of Recovery Act capital funds. As a result, the Authority's use of Recovery Act capital funds was not transparent. Since the Authority has reported that it expended all of its Recovery Act capital funds, it needs to provide adequate documentation to support the costs it reported.

Recommendations

We recommend that the Director of the Denver Office of Public Housing

- 3A. Require the Authority to provide you with documentation to support the costs it reported in FederalReporting.gov.

SCOPE AND METHODOLOGY

Our audit period was March 1, 2009, through June 30, 2011. We performed our onsite audit work in August 2011 at the Authority's office at 128 West First Street, Trinidad, CO.

To accomplish our objectives, we

- Interviewed the Authority's staff.
- Interviewed HUD Office of Public Housing staff in Denver, CO.
- Reviewed the Authority's Recovery Act procurement policies, procurement and contracting files, financial records, and supporting documentation.
- Reviewed the Authority's annual and 5-year plans, minutes from the board of directors meetings, Capital Fund budgets, annual audited financial statements, and correspondence with HUD.
- Reviewed Federal regulations, the Recovery Act, and HUD requirements.

The Authority was awarded \$444,654 in Recovery Act funds. We reviewed 100 percent of the Authority's Recovery Act obligations and expenditures.

To determine whether the Authority properly entered Recovery Act information into FederalReporting.gov, we examined all quarterly expenditures during our audit period. We then compared that information to what was reported in FederalReporting.gov.

We did not use computer-generated data as audit evidence or to support our audit conclusions. We used source documentation maintained by the Authority. We compared the source documentation to data reported in FederalReporting.gov and data reported in HUD's Line of Credit Control System. All conclusions were based on source documentation reviewed during the audit.

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 to ensure that the Authority performed cost estimates before receiving bids or proposals.
- Controls to ensure that the Authority properly managed its equipment purchases.
- Controls to ensure that the Authority reported Recovery Act grant information in FederalReporting.gov.

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 Deficiencies

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

- The Authority did not have adequate procedures to effectively manage its equipment purchases (finding 2).
- The Authority did not have adequate controls over maintaining documentation to support and track Recovery Act grant information reported in FederalReporting.gov (finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported cost 1/	Unreasonable cost 2/
1C	\$353,341	
2B		\$2,360

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.