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TO: Frances M. Cleary, Director, Kansas City Office of Public Housing, 7APH

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FROM: Ron Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Topeka, KS, Housing Authority Did Not Always Document Its Procurement Actions and Did Not Accurately Report on Its Recovery Act Funds

HIGHLIGHTS

What We Audited and Why

We reviewed the Topeka, KS, Public Housing Authority. We selected the Authority for review because it spent a large amount of American Recovery and Reinvestment Act of 2009 funds. Our objectives were to determine whether the Authority expended Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules, met procurement requirements in selecting the developers for its mixed-finance projects, and reported Recovery Act grant information in Recovery.gov accurately and completely.

What We Found

The Authority generally obligated and expended its Recovery Act funds in accordance with Recovery Act rules and regulations. However, it did not adequately document its selection of the Tennessee Town II developer. In addition, it did not accurately or completely report Recovery Act grant information in Recovery.gov.

What We Recommend

We recommend that the Director of HUD's Kansas City Office of Public Housing ensure that the Authority's staff receives procurement training and the Authority develops and implements detailed operational procedures to strengthen existing procurement policies. We also recommend that the Director work with the Authority to update its Recovery Act Web site, as appropriate, to reflect the correct program information.

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 the draft report to the Authority on March 6, 2012 and requested a response by March 13, 2012. The Authority notified us on March 15, 2012 that it agreed with the findings and chose not to submit written comments.

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BACKGROUND AND OBJECTIVES

The Topeka, KS, Housing Authority began operations in 2001 to provide decent, safe, and sanitary housing to low-income, elderly, and disabled people in Topeka, KS. The Authority is governed by a five-member board of commissioners, and an executive director manages its daily operations. The Authority's administrative offices are located at 2010 Southeast California Avenue, Topeka, KS.

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. 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. The Recovery Act imposed additional reporting requirements and more stringent obligation, and expenditure requirements on grant recipients beyond those applicable to the regular Public Housing Capital Fund program grants.

During the period of our audit, the Authority received more than \$10.8 million in Recovery Act Capital Fund Recovery Competition grant funds from the U.S. Department of Housing and Urban Development. The Authority received \$10 million of these funds for the Echo Ridge mixed-finance project consisting of 64 public housing units. In addition, it received \$833,000 for the Tennessee Town II mixed-finance project, consisting of 16 housing units for elderly or disabled persons. Also, the Authority received more than \$1.2 million in Recovery Act formula grant funds.

In administering its Federal grants, the Authority must follow Federal regulations including those in the Code of Federal Regulations, Office of Management and Budget circulars, HUD handbooks, public and Indian housing notices, and the Authority's policies and procedures.

The objective of our review was to determine whether the Authority

- Expended Recovery Act grant funds in accordance with Recovery Act requirements and applicable HUD rules,
- Met procurement requirements in selecting the developers for its mixed-finance projects, and
- Reported Recovery Act grant information in Recovery.gov accurately and completely.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Adequately Document Its Selection of the Tennessee Town II Developer

The Authority did not adequately document its selection of the Tennessee Town II developer. This occurred because the Authority lacked procurement training and did not have detailed controls over its procurement process. As a result, it may have limited competition and spent more Recovery Act funds for its developer than required.

The Authority Did Not Document Its Selection of the Developer

The Authority did not adequately document its selection of the Tennessee Town II developer. Regulations at 24 CFR (Code of Federal Regulations) 85.36 (b)(9) state that grantees and subgrantees must maintain records sufficient to detail the significant history of a procurement. Also, 24 CFR 85.36(c) states that all procurement transactions must be conducted in a manner providing full and open competition. HUD Handbook 7460.8, REV-2, paragraph 3.3, further states that supporting documentation must be in writing and placed into the procurement file.

The Tennessee Town II development agreement was signed on October 15, 2008, between the Authority and a developer. We asked the Authority about its procurement process used in selecting this developer. The Authority stated that it initially conferred with other public housing experts and identified two possible developers that may have been interested in the Tennessee Town II project. The Authority then interviewed the two developers to determine their qualifications. After interviewing the developers, the Authority made its selection.

We asked the Authority if it had written documentation, but it was unable to produce supporting documentation outlining its selection criteria or the specific reasons why this developer was selected. This developer selection process differed from the process used for the Echo Ridge mixed-finance project. The Authority documented the request for qualification process used to select the Echo Ridge developer, and there were three potential developers that applied for the developer position.

The Authority Lacked Procurement Training and Detailed Controls

The Authority lacked procurement training and did not have detailed controls over its procurement process. Although the Authority's executive director and deputy director were responsible for selecting the Tennessee Town II developer, they had not received procurement training. As a result, the Authority did not sufficiently understand HUD's requirement to properly document its procurement process.

In addition, the Authority did not have detailed controls over its procurement process to help ensure that staff followed proper procurement policies and procedures. We asked the Authority if it had any type of procurement checklist and if so, whether this checklist would have helped it to properly document its procurement process. The Authority stated that it did not have a checklist but that a checklist would have reminded it to document the procurement.

The Authority May Have Limited Its Competition

Although the Authority believed its selection of the Tennessee Town II developer was justified, this may not have been the case. As a result of the Authority's actions, it may have limited competition and spent more Recovery Act funds for its developer than required.

Recommendations

We recommend that the Director of the HUD Kansas City Office of Public Housing

- 1A. Ensure that Authority staff receives procurement training.
- 1B. Ensure that the Authority develops and implements detailed operational procedures to strengthen existing procurement policies.

Finding 2: The Authority Did Not Accurately or Completely Report Recovery Act Grant Information in FederalReporting.gov

The Authority did not accurately or completely report its Recovery Act grant information in FederalReporting.gov. This occurred because the Authority's staff did not receive adequate training. As a result, the public did not have access to accurate and complete grant information.

The Authority Did Not Accurately or Completely Report Required Information

The Authority generally obligated and expended Recovery Act grant funds in accordance with Recovery Act requirements, but it did not accurately or completely report its Recovery Act grant information in FederalReporting.gov. According to the Recovery Act requirements (2 CFR Part 176) and Office of Management and Budget guidance, Recovery Act grant recipients are required to report the following information in 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.

The Authority did not accurately or completely report in FederalReporting.gov the number of jobs created or retained using its Capital Fund Recovery Competition grant funds. For the Echo Ridge competitive grant, the Authority inaccurately or incompletely reported this information for four quarters. For the Tennessee Town II competitive grant, the Authority inaccurately reported this information for three quarters.

Period	Competitive grant project	Jobs created or retained reported in FederalReporting.gov	Actual jobs created or retained	Reporting differences
10/1/2010-12/31/2010	Echo Ridge	5	14.50	(9.50)
	Tennessee Town II	5	1.07	3.93
1/1/2011-3/31/2011	Echo Ridge	5	25.44	(20.44)
	Tennessee Town II	5	2.31	2.69
4/1/2011-6/30/2011	Echo Ridge	40.30	40.39	(.09)
	Tennessee Town II	.22	.19	.03
7/1/2011-9/30/2011	Echo Ridge	Incomplete*	Incomplete*	Incomplete*
	Tennessee Town II	N/A**	N/A**	N/A**

() Underreported

* The Authority was still receiving and computing payroll information.

** The project was completed during the second quarter of 2011.

Also, the Authority did not accurately report its expenditures in FederalReporting.gov. For the Echo Ridge competitive grant, the Authority inaccurately or incompletely reported this information for four of the five quarters. For the Tennessee Town II competitive grant, the Authority inaccurately reported this information for two of the three quarters.

Period	Competitive grant project	Expenditures reported in FederalReporting.gov	Actual expenditures	Reporting differences
7/1/2010-9/30/2010	Echo Ridge	\$9,464	\$188,229	(\$178,765)
10/1/2010-12/31/2010	Echo Ridge	\$1,449,156	\$1,578,311	(\$129,155)
	Tennessee Town II	\$283,683	\$283,726	(\$43)
1/1/2011-3/31/2011	Echo Ridge	\$3,908,109	\$3,908,109	\$0
	Tennessee Town II	\$758,131	\$758,131	\$0
4/1/2011-6/30/2011	Echo Ridge	\$7,378,533	\$6,828,178	\$550,355
	Tennessee Town II	\$833,931	\$758,131	\$75,800

7/1/2011- 9/30/2011	Echo Ridge	\$9,760,118	\$9,502,554	\$257,564
	Tennessee Town II	N/A*	N/A*	N/A*

() Underreported

* The project was completed during the second quarter of 2011.

Finally, the Authority did not report the required Recovery Act vendor information in FederalReporting.gov for any of its vendor payments in excess of \$25,000 for both the Echo Ridge and Tennessee Town II competitive grants.

The Authority Did Not Receive Adequate Training

The Authority's staff did not receive adequate training. According to the executive director, the staff member initially responsible for entering the data into FederalReporting.gov did not receive training. Later, these duties were given to another staff member, who was given only limited on-the-job training by the untrained staff member.

The Public Did Not Have Access to Accurate Grant Information

The public did not have access to accurate grant information. As a result, the Authority's use of Recovery Act competitive grant funds was not transparent.

Recommendation

Since the Authority had nearly completed its Recovery Act reporting requirements, we did not provide recommendations related to the cause of this finding. However, we recommend that the Director of the HUD Kansas City Office of Public Housing work with the Authority to

- 2A. Update its Recovery Act Web site, as appropriate, to reflect the correct program information.

SCOPE AND METHODOLOGY

Our review period covered January 1, 2009, through September 30, 2011. We expanded the scope to review the Tennessee Town II development agreement, which the Authority signed on October 15, 2008. We performed our onsite work from October 2011 through January 2012 at the Authority's office located at 2010 Southeast California Avenue, Topeka, KS.

To accomplish our objectives, we

- Interviewed the Authority's staff and its mixed-finance project developers.
- Interviewed HUD's Office of Public and Indian Housing staff in Washington, DC, and Kansas City, KS.
- Reviewed the Authority's Recovery Act procurement policies, procurement and contracting files, financial records, and supporting documentation.
- Reviewed Federal regulations, the Recovery Act, and HUD requirements.

HUD awarded the Authority more than \$1.2 million in Recovery Act formula grant funds and more than \$10.8 million in Capital Fund Recovery Competition grant funds for a total of more than \$12.1 million. We reviewed the Capital Fund Recovery Competition grants. One of the grants (Echo Ridge) was for \$10 million, and the other (Tennessee Town II) was for \$833,931. The Authority entered into an agreement with a developer for each project. We reviewed the Authority's procurement process for selecting each developer.

To determine whether the Authority properly entered Recovery Act information into FederalReporting.gov, we examined HUD's Line of Credit Control System (LOCCS) data, payroll records, invoices, and accounting records. We then compared the information to that reported in FederalReporting.gov.

To determine whether the Authority properly obligated and expended its Recovery Act capital funds in accordance with Recovery Act rules and regulations, we reviewed both Capital Fund Recovery Competition grants. For the obligations, we selected both Capital Fund Recovery Competition grants and all four grant obligation transactions to review. The four obligation transactions represented 100 percent of the two grants and totaled more than \$10.8 million.

For the expenditures, we selected a total of seven expenditures from the two Capital Fund Recovery Competition grants. We selected the highest amounts due to the likelihood of misstatements or the potential for high risk. For the first grant (Echo Ridge), we selected the three construction expenditures with amounts higher than \$1.1 million. For the second grant (Tennessee Town II), we selected the two construction expenditures with amounts higher than \$150,000. In addition, each grant had one administrative fee expenditure, which we selected for review. Overall, our sample of seven expenditures represented approximately 22 percent of the 32 expenditures in our universe. The seven expenditures in our sample totaled more than \$4.7 million, or approximately 44 percent of the total expenditures of more than \$10.5 million.

We used LOCCS as support to help meet our audit objectives. To verify the reliability of the LOCCS data, we first looked at when the LOCCS draws were disbursed to the Authority. Next, we reviewed the Authority's bank statements to ensure that the LOCCS disbursements had been deposited. Finally, we looked at the Echo Ridge Limited Liability Company (LLC) and Tennessee Town II LLC bank statements to verify when the LOCCS payments were deposited from the Authority to the Echo Ridge and Tennessee Town II LLCs' bank accounts. Overall, we determined that the LOCCS data were sufficiently reliable for the purposes of this 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 objective(s). 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 properly reporting Recovery Act information
- Controls in properly selecting developers

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 effective training and controls in place for selecting developers (finding 1).

- The Authority did not provide training to staff responsible for entering data into FederalReporting.gov (finding 2).