



U.S. Department of Housing and Urban Development
Office of Inspector General
Region VII Office of Audit, 7AGA
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

MEMORANDUM NO:
2009-KC-1801

September 18, 2009

MEMORANDUM FOR: Steven E. Meiss, Director of Public Housing Hub, 5APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The East St. Louis Housing Authority Had Weaknesses That Could Affect Its Capacity to Administer Its Recovery Act Funding

INTRODUCTION

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we conducted a capacity review of the East Saint Louis Housing Authority's (Authority) operations. Our objective was to determine whether there was evidence indicating that the Authority lacked the capacity to adequately administer Recovery Act funding.

METHODOLOGY AND SCOPE

Our review of the Authority was limited to gaining an understanding of internal controls over the administration of Recovery Act funds. To meet our objective, we reviewed Recovery Act documentation and funding agreements. We interviewed the Authority's management and staff and briefly reviewed its documentation such as policies and procedures, organizational charts, and job descriptions. Additionally, we reviewed the Authority's process for awarding grants (i.e., advertising, bid receipt and evaluation, etc.).

Internal Control – Integrated Framework, was published in September 1992. It was a joint project of five organizations, which formed the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. *Internal Control – Integrated Framework* is commonly referred to as the COSO report. This report describes the following five interrelated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. We used these elements as a framework to evaluate the Authority's capacity to manage its Recovery Act funding.

Our review was limited to our stated objective and should not be considered to be a detailed analysis of the Authority's internal controls or operations.

BACKGROUND

The Authority provides housing to low-income families, the elderly, and people with disabilities in St. Clair County, Illinois. It has been under an administrative receivership with the U.S. Department of Housing and Urban Development (HUD) since 1985. Administrative receivership is a process whereby HUD declares a public housing authority in substantial default of its annual contributions contract and takes control of the authority. A HUD representative who works in the Chicago office acts as the Authority's board, and this board selects an executive director, who is then hired by the Authority to run its day-to-day operations.

The Authority oversees 2,090 units of public housing, which include 4,748 residents in the city of East St. Louis. There are nine family developments, six high-rise apartment buildings, and various single-family detached homes known as scattered sites. The Authority received a Public Housing Assessment System score of 82 for its fiscal year 2008. Based on this score, the Authority was found to be a "standard performer."

On February 17, 2009, Congress enacted the Recovery Act, which provides funding to carry out capital and management activities at public housing developments. The Recovery Act requires a high degree of transparency and accountability. Additionally, Recovery Act recipients are required to provide timely and reliable program data and demonstrate the capacity to administer Recovery Act funding.

HUD authorized more than \$4.9 million in Recovery Act funding in March 2009 for the Authority. The Authority plans to use these funds to carry out capital and management improvements at its public housing developments. The Authority received between \$3.4 and \$3.8 million in capital funds for each fiscal year from 2005 to 2008.

RESULTS OF REVIEW

We found weaknesses that could adversely affect the Authority's capacity to administer its Recovery Act funding. Based on our limited review, we found the Authority did not

- Establish a risk assessment process,
- Document adequate monitoring of capital fund activities, or
- Maintain complete contract files.

The Authority Did Not Establish a Risk Assessment Process

The Authority did not perform risk assessments. A risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risk should be managed. A risk assessment allows an entity to understand the extent to which potential events might impact objectives. The Authority indicated that it completed a risk assessment, but it also indicated that the risk assessment performed only covered the management aspect of the Authority and not the areas of operation. The Authority did not provide documentation supporting its risk assessment.

The Authority Did Not Always Document Adequate Monitoring of Capital Fund Activities

Since the Authority has not expended Recovery Act capital funds to date, we reviewed prior general capital fund contracting. During the audit period ending June 30, 2009, the Authority contracted for more than \$3.5 million in capital funds. We requested monitoring files on the following three capital fund contracts: unarmed security, air conditioner cages, and replacement storm doors. The Authority did not provide documentation to support monitoring of the security contract. It paid the security invoices based on billed hours of service although it had no mechanism to verify the hours claimed. This lack of verification did not provide an adequate level of accountability. A building manager for the Authority recognized the lack of monitoring of security guards as a problem. She recommended that the Authority purchase an electronic system, which would provide verification of the security guards' presence on site.

The Authority Did Not Always Maintain Complete Contract Files

The Authority did not maintain complete contract files evidencing that it performed an independent cost analysis on all projects. One of the seven capital fund contract files reviewed lacked the required independent cost analysis. However, the contracting department was later able to obtain a copy of the cost analysis from another department. An earlier Office of Inspector General audit (2007-KC-1004) had a finding relating to the Authority's not demonstrating that a cost or price analysis had been performed on all contracts.

AUDITEE RESPONSE

We provided the Authority a draft of this memorandum on August 31, 2009, and discussed it with the Authority at an exit conference on September 9, 2009. The City provided a written response on September 15, 2009. The Authority's response and OIG's analysis are included herein as Appendix A.

RECOMMENDATIONS

We recommend that the Director of the Public Housing hub require the Authority to ensure that the following corrective actions are taken before contracting for any new work:

- 1A. Implement an effective risk assessment process.
- 1B. Implement controls to ensure that monitoring efforts are adequately documented.
- 1C. Implement controls to ensure that all project contract files are complete.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

AUDITEE COMMENTS

September 15, 2009

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General
Region VII Office of Audit
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

RE: The East St. Louis Housing Authority has weaknesses that could affect its capacity to administer its Recovery Act Funding

Dear Mr. Hosking:

The East St. Louis Housing Authority (ESLHA) would like to thank you for the opportunity to provide comments on the Discussion Draft Audit Report. The East St. Louis Housing Authority was notified that the U.S. Department of Housing and Urban Development Office of the Inspector General would be on site to conduct an audit. The objective was to determine the Housing Authority's capacity to adequately administer Recovery Act funding.

HOUSING AUTHORITY RESPONSE TO RECOMMENDATIONS

1A Establish a Risk Assessment Process.

The Housing Authority agrees that there was no Risk Assessment Policy in place for the operations of the entire Agency. The Housing Authority is currently working on a Risk Assessment Policy for October's Board Meeting. This policy will identify and analyze the relevant risk to achievement of the objective, forming a basis to strategize how the risk should be managed. This process will be incorporated into our senior staff meeting to make certain that Risk Assessment is performed in all areas of operation.

1B Document adequate monitoring of Capital Fund activities.

The Housing Authority agrees that it did not provide documentation to support monitoring the Security Contract. However, the Authority has purchased a new Deggy System that will be

installed on each floor of our high rise buildings that will require the contractor to use a wand that will record time when they perform foot patrol to each of the floors. This system will serve as verification of hours billed, as well as ensure a level of accountability.

1C The Authority did not always document adequate monitoring of Capital Fund Activities.

The Authority is not in total agreement with this finding. The Authority was audited by OIG (2007-KC-1004), which stated that the Authority did not demonstrate that a cost or price analysis is performed on every project. The Authority has since had a change in staff that is fully trained on the HUD Procurement Handbook, as well as the Authority's Procurement Policy. A process was put in place after the last audit to ensure that an ICE is performed on every job. During the exit conference, you stated that you had gone past your review period, which took you back to a file that had been cited in the previous audit. The Authority can assure that an ICE is performed prior to solicitation.

In closing, the ESLHA appreciates the opportunity to provide comments to the draft report. We understand the intent of the report is to improve operations, which will enhance our efforts to deliver quality services to the residents of the East St. Louis housing Authority. As such, we take the WEAKNESSES seriously and, will begin to make amendments in those areas requiring improvements.

Should you require additional information or have concerns about the content of this report, please feel free to contact me at (618) 646-7163.

Sincerely,

Elizabeth Tolliver
Executive Director

Cc: Carrie Gray, CPA, Assistant Regional Inspector General for Audit, HUD Office of Inspector General, St. Louis
William H. Krueger, Senior Auditor, HUD Office of Inspector General, St. Louis
Steven E. Meiss, Director, Office of Public Housing, Chicago HUD
Elmore Richardson, Housing Authority Representative, Office of Public Housing, Chicago HUD

OIG'S EVALUATION

The Authority generally agrees with our issues and our recommendations. OIG agrees that the Authority's current process appears to ensure that an independent cost estimate is performed on every job. The independent cost estimate in question was for the oldest contract that we reviewed (from July 2007). This contract was not cited in our previous audit report issued in January 2007.