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TO: Donna Ayala, Director, Office of Public Housing, Boston Hub, 1APH

FROM: 
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SUBJECT: The Manchester Housing Authority in Manchester, CT, Obligated Its Recovery Act Grant Funds in a Timely Manner for Eligible Projects and Properly Supported Expenditures

HIGHLIGHTS

What We Audited and Why

We audited the Manchester Housing Authority (Authority) in Manchester, CT, because it obligated the majority of its \$520,654 Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded grant awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) just before the required obligation deadline. Our objectives were to determine whether the Authority (1) obligated its grant funds in a timely manner for eligible projects, (2) maintained support for its obligations and expenditures, and (3) had adequate management controls over its obligation process.

What We Found

The Authority obligated its Recovery Act funds in a timely manner for eligible projects and maintained the proper support for its obligations and expenditures. Its management controls over its obligation process were adequate and allowed the Authority to obligate \$459,996 of the \$520,654 grant for nine separate

projects, with the remaining funds being obligated for administration and other fees.

What We Recommend

We did not identify any deficiencies, and, therefore, there are no recommendations in this report.

Auditee's Response

We provided our discussion draft audit report to the Authority on September 17, 2010. This report did not require a response from the auditee and no formal comments were received.

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BACKGROUND AND OBJECTIVES

The Manchester Housing Authority (Authority), Manchester, CT, is incorporated under the laws of the State of Connecticut and operates under a board of commissioners. The Authority has contracted with the Federal Government, acting through the U.S. Department of Housing and Urban Development (HUD), for financial assistance for low-income public housing pursuant to the United States Housing Act of 1937 as amended. The Authority owns and operates more than 300 Federal public housing units under an annual contributions contract with HUD. It also manages more than 100 State housing units.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). 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 required that \$3 billion of these funds be distributed as formula funds and the remaining \$1 billion be distributed through a competitive process. On March 18, 2009, HUD awarded the Authority a formula grant of \$520,654.

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients than those applicable to the ongoing Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded grants. Recovery Act funds must be used for capital fund-eligible activities identified in either the recipient's annual statement or 5-year action plan. Recovery Act funds can be used to address deferred maintenance needs, including but not limited to (1) replacement of obsolete systems and equipment with energy-efficient systems and equipment that reduce consumption, (2) work items related to code compliance including abatement of lead-based paint and implementation of accessibility standards, (3) correction of environmental issues, and (4) rehabilitation and modernization activities that have been delayed or not undertaken because of insufficient funds.

As of September 1, 2010, the Authority had allocated its Recovery Act funds for nine projects, eight of which are fully complete. The Authority used its Recovery Act funds primarily to replace boilers and water heaters and also to provide upgrades to existing fire and boiler doors in one project.

Our objectives were to determine whether the Authority (1) obligated its grant funds in a timely manner for eligible projects, (2) maintained support for its obligations and expenditures, and (3) had adequate management controls over its obligation process.

RESULTS OF AUDIT

Finding 1: The Authority Obligated Recovery Act Grant Funds in a Timely Manner for Eligible Projects and Obligations and Expenditures Were Properly Supported

HUD awarded a \$520,654 Public Housing Capital Fund grant under the Recovery Act to the Authority to carry out capital and management activities. We reviewed all of the Authority’s Recovery Act obligations, totaling \$520,654, and found that the Authority obligated \$459,996 Recovery Act funds in a timely manner for eligible projects and the remaining funds for grant administration, properly supported its obligations and expenditures, and had adequate management controls governing its obligation process.

The Authority Obligated Its Recovery Act Funds in a Timely Manner

The Recovery Act provided the Authority with \$520,654 for capital improvements on March 18, 2009, and required that the funds be obligated within 1 year to stimulate the economy. To meet the March 17, 2010, obligation deadline, the Authority obligated Recovery Act funds for the following nine work items, totaling \$459,996, with the remaining funds set aside for administration and other fees.

Project name	Description of work	Contract date	Contract amount	Status
Westhill	Pipe modification & boiler replacement	3-16-10	\$152,600	Complete
Westhill	Water heater replacement	2-22-10	\$142,085	Complete
Westhill	Parking lot topping	3-16-10	\$44,360	Complete
Mayfair	Electrical service upgrade	3-16-10	\$29,887	Ongoing
Wilfred	Vinyl window replacement	3-16-10	\$6,781	Complete
Westhill	Vinyl railing replacement	3-16-10	\$47,340	Complete
Westhill	Fire door upgrade	3-16-10	\$8,514	Complete
Westhill	Boiler door upgrade	3-16-10	\$14,100	Complete
Mayfair	Smoke detector relocation	3-16-10	\$14,329	Complete
Total			\$459,996	

The Authority Funded Eligible Projects and Maintained Adequate Support for Obligations and Expenditures

The Authority implemented sufficient management controls to ensure that it obligated all funds in a timely manner, that funded projects were eligible, and that all obligations and expenditures were properly supported. No exceptions were noted.

All purchase orders and contracts were

- Obligated in a timely manner. All contracts were executed before the deadline and properly supported with executed written contracts or purchase orders.
- For eligible activities.
- Procured using an appropriate procurement method.
- Adequately competed, advertised, evaluated, and awarded to the lowest responsible bidder.
- Supported by a cost or price estimate or other acceptable method completed before soliciting bids to establish the basis for the contract price.

Additionally, the contracts contained the required contract provisions and clauses, and the contractors were adequately bonded and insured.

Finally, the Authority's accounting department maintained proper support for the expenditures reviewed totaling \$359,394. It also adequately tracked and reported to HUD the expenditures of Recovery Act capital funds it had obligated.

Conclusion

The Authority implemented sufficient management controls to ensure that it obligated all funds in a timely manner, that funded projects were eligible, and that all obligations and expenditures were properly supported. No exceptions were noted.

Based on the results of the audit, this report contains no recommendations.

SCOPE AND METHODOLOGY

We conducted our review between June and September 2010. Our review generally covered the period March 18, 2009, through June 30, 2010, and was expanded as necessary to meet our audit objectives.

To accomplish our audit objectives, we

- Obtained an understanding of the controls related to and significant to the audit objectives and reviewed relevant laws and regulations, including
 - The Recovery Act, Public Law 111-05.
 - Office of Public and Indian Housing (PIH) Notice PIH 2009-12 (HA) – Information and Procedures for Processing Recovery Act Capital Fund Formula Grants.
 - Notice PIH 2009-31 (HA) – PIH Implementation Guidance for the Buy American Requirement of the Recovery Act Including Process for Applying Exceptions.
 - 24 CFR (Code of Federal Regulations) Part 905 – The Public Housing Capital Fund Program.
 - 24 CFR 85.36 – Procurement.
- Interviewed the Authority’s staff to determine what controls were in place to ensure compliance with the Recovery Act and HUD’s requirements.
- Obtained and reviewed independently audited financial reports for findings that may have impacted our audit objectives.
- Identified and summarized the Recovery Act funds awarded to the Authority and the obligations made by the Authority.
- Reviewed all Recovery Act-funded projects to determine whether the Authority obligated Recovery Act funds in a timely manner for eligible projects and whether the obligations/expenditures were properly supported. We reviewed nine projects totaling \$459,996.
- Reviewed controls over the tracking, verifying, and reporting of Recovery Act administrative expenses

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 staff experience, training, and workload
- Controls over selecting and approving eligible activities
- Controls over the tracking, verifying, and reporting of Recovery Act administrative expenses
- Controls over the timely obligation of Recovery Act funds
- Controls over contracting for activities in accordance with the Recovery Act

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

We evaluated internal controls related to the audit objectives 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 controls.