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TO: Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ

FROM:

A handwritten signature in black ink that reads "Michael A. Motulski".

For John A. Dvorak, Regional Inspector General for Audit, Region 1, 1AGA

SUBJECT: Office of Public Housing, Boston, MA, Monitored Recovery Act Grants
Awarded to Region 1 Public Housing Authority Grantees in Accordance With
Applicable Requirements

HIGHLIGHTS

What We Audited and Why

We audited the monitoring practices that the Boston Office of Public Housing (PIH) used to monitor of American Recovery and Reinvestment Act of 2009 (Recovery Act) supplemental capital formula and competitive grants awarded to public housing agencies in Region 1. The audit was conducted in accordance with a mandate to review the U.S. Department of Housing and Urban Development's (HUD) awarding, disbursing, and monitoring of Recovery Act funds to determine whether there were safeguards to ensure that grantees used funds for their intended purposes. Our objective was to determine whether PIH (1) monitored Recovery Act grantees identified by the risk assessment process HUD established and implemented for selecting Recovery Act grantees for monitoring, (2) monitored grantees' administration of the grant for compliance with Recovery Act requirements, and 3) provided increased transparency and adequate monitoring of expenditures.

What We Found

PIH in Region 1 complied with HUD policies for monitoring Recovery Act grantees selected through the risk assessment process. It also monitored grantees' administration of the grant for compliance with Recovery Act requirements and provided increased transparency and adequate monitoring of Recovery Act expenditures. Therefore, our review of PIH's monitoring for the grants tested did not result in the identification of any deficiencies.

For grantees that could not meet the requirements of the Recovery Act, PIH in Region 1 recaptured Recovery Act funds according to applicable requirements and HUD monitoring policies. It recaptured more than \$287,000 from three grantees that could not meet the requirements.

What We Recommend

This report does not contain recommendations, and no further action is necessary with respect to our report.

Auditee's Response

We provided the Director of PIH in Region 1 a draft report on April 29, 2011, and held an exit conference on May 3, 2011. PIH did/did not provide formal written comments because the report contained no recommendations and HUD PIH. It agreed with our conclusion in the report.

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BACKGROUND AND OBJECTIVE

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). Division A, Title XII, of the Recovery Act (PL 111-5) appropriated \$4 billion for the Public Housing Capital Fund program to carry out activities of public housing agencies (PHA), as authorized under Section 9 of the United States Housing Act of 1937. The Act required that \$3 billion of these funds be distributed as Public Housing Capital Fund formula grants and the remainder be distributed through a competitive grant process. For both grant types, the Recovery Act required the grantee or PHAs to obligate 100 percent of the funds within 1 year of the date on which funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of the availability date.

Administrative costs are covered as part of the Recovery Act program appropriation. These costs reduced available formula grant funds to \$2.985 billion, resulting in the award of one formula grant to each of the U.S. Department of Housing and Urban Development’s (HUD) 3,134 PHAs. They also reduced available competitive grant funds to \$995 million, which resulted in awards of 396 competitive grants to 211 of these same PHAs. All PHAs were required to submit an annual statement detailing the budget line items and the projects that would benefit from the funding.

In Region 1,¹ there were 170 PHAs, which had received more than \$155.8 million in Recovery Act capital formula grants as of December 31, 2010. In addition, in the same period, 20 of these PHAs applied for and received funds totaling more than \$109.8 million through 34 Recovery Act competitive grants. The Boston Office of Public Housing (PIH) in Region 1 had reviewed 100 percent of the obligations for both the formula and competitive grants in Region 1. In addition, PIH in Region 1 monitored the administration of 53 of the largest PHA formula grants, which totaled more than \$98 million (or 63 percent) of the formula grant funds awarded to the 170 PHAs in the region. Also, of the 34 competitive grants awarded in the region, PIH monitored the administration of 19 of the largest grants, which totaled more than \$93 million (or 85 percent) of the competitive grant funds awarded to the PHAs in the region. As of December 31, 2010, PIH was monitoring formula grant award expenditures totaling \$79 million and competitive grant award expenditures totaling \$33 million.

Recovery Act awards	All regions	All regions	Region 1	Region 1
Type grant	All formula	All competitive	Formula	Competitive
No. of grants	3,134	396	170	34
No. of PHAs	3,134	211	170	20
Amount authorized	\$2,985,000,000	\$995,000,000	\$155,887,389	\$109,831,325

We reviewed 5 of the 53 formula grants and 15 of the 19 competitive grants that PIH in Region 1 monitored. The review encompassed 55 percent of the formula grant awards monitored and 96 percent of the competitive grant awards monitored.

¹ Six states including Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont are administered through the HUD Office of Public Housing in Region 1.

Our overall objective was to determine whether PIH (1) monitored Recovery Act grantees identified by the risk assessment process HUD established and implemented for selecting Recovery Act grantees for monitoring, (2) monitored these grantees' administration of the grants for compliance with Recovery Act requirements, and (3) provided increased transparency and adequate monitoring of expenditures.

RESULTS OF AUDIT

PIH in Region 1 Adequately Monitored Its Recovery Act Grant Awards to PHAs in Accordance With Applicable Regulations and Requirements

HUD PIH in Region 1 adequately monitored grantees' administration of the Recovery Act capital fund grants and the expenditures of formula and competitive Recovery Act grant funds that were awarded to Region 1 grantees² and recaptured funds as necessary. Therefore, it complied with applicable regulations, checklists, and instructions established by HUD. Further, PIH in Region 1 monitored 100 percent of its PHAs' Recovery Act (formula and competitive) grant obligations to ensure that all funds were obligated by the required deadlines.

Onsite Monitoring

PIH in Region 1 conducted onsite monitoring of its Recovery Act formula grantees and remote reviews of its Recovery Act competitive grantees in accordance with Recovery Act (PL 111-5) and applicable HUD monitoring strategies. PIH staff in Region 1 performed separate remote monitoring reviews for obligations and expenditures of formula and competitive Recovery Act grant funds for selected grantees in Region 1. In addition, PIH used the appropriate checklists in performing its monitoring

PIH in Region 1 posted monitoring results using Microsoft SharePoint 2007, together with Microsoft InfoPath, which was designed for distributing and filling electronic forms. HUD approved this technology for use and adapted it to provide increased transparency on Recovery Act obligations, expenditures and monitoring.

All transmittals to the Office of Public and Indian Housing in Washington, DC, were properly supported and documented, and PIH in Region 1 followed up on outstanding issues and promoted transparency and accountability as required by the Recovery Act.

Funds Obligated

PIH in Region 1 monitored 100 percent of its PHAs' Recovery Act (formula and competitive) grant obligations to ensure that all funds were obligated by the

² The grantees were all PHAs located in Region 1.

required deadlines. This process included a determination of the validity of the obligation, and there were no exceptions noted. In addition, PIH in Region 1 continued monitoring its grantees to ensure that grants were properly administered according to the Recovery Act.

Funds Expended

PIH in Region 1 monitored each grantee to ensure that it would expend at least 60 percent of its competitive grants by the dates established by the Recovery Act. Apart from those PHAs that were not able to meet expenditure deadline requirements, drawdowns were on track to meet the 60 percent expenditure requirement.

Recaptured Funds

PIH in Region 1 followed HUD monitoring and recapture policies and continually monitored Recovery Act funds that were awarded. It also recaptured funds from PHAs that were unable to meet requirements when necessary. Therefore, PIH in Region 1 recaptured \$33,016 from the Webster Housing Authority, \$116,774 from the North Adams Housing Authority, and \$137,666 from the Fitchburg Housing Authority because these grantees were unable to meet requirements to expend the funds.

Conclusion

PIH in Region 1 complied with HUD monitoring directives and administered its Recovery Act grants in accordance with Recovery Act requirements. Generally, PIH in Region 1 implemented systems for tracking accounting for and monitoring selected grantee administration of the Recovery Act grants according to HUD policies. For the grants reviewed, PIH adequately and sufficiently monitored the Recovery Act funds that were awarded to and expended by its grantees, provided increased transparency by posting the results of the monitoring, and recaptured funds as necessary. Our review did not result in the identification of any deficiencies.

Recommendations

Based on the results of this audit, the audit report contains no recommendations, and no further action is necessary with respect to our report.

SCOPE AND METHODOLOGY

As part of our annual plan, our overall objective was to determine whether PIH in Region 1 monitored grantees for compliance with Recovery Act requirements and provided adequate monitoring of expenditures. Audit work was performed at the PIH office in Region 1. The review did not evaluate the risk assessment process established and implemented by HUD because it was outside the scope of this review. Our audit covered the period January 2009 through December 2010 and was extended when necessary to meet our objectives.

To accomplish our audit objectives, we

- Interviewed PIH in Region 1’s Director and Deputy Director regarding monitoring and recapture procedures;
- Reviewed and evaluated documentation available in the InfoPath SharePoint System to determine whether system was reliable and the Data within it was secure, and that it provided PIH with an accurate, efficient complete, and transparent method of monitoring Recovery Act funds;
- Obtained and exhibited all media and supporting documentation on monitoring and recapture, including HUD’s weekly reports of HUD’s Office Office of Field Policy and Management.
- We reviewed grant amounts awarded to the region’s housing authorities and judgmentally selected the largest five for review. For these five, we reviewed all Recovery Act formula and competitive grant awarded them. In total, we reviewed 5 of the 53 formula grants that PIH in Region 1 monitored and 15 of the 19 competitive grants that it monitored. The review encompassed 55 percent of the formula grant awards monitored and 96 percent of the competitive grant awards monitored. The grant amounts are as follows:

PHA Recovery Act sample	Formula awards sampled in Region 1	Amount of formula grant sample	Formula grant amount disbursed as of 12/31/2010	# of competitive awards	Amount of competitive grant sample	Competitive grant amount disbursed as of 12/31/2010
Boston Housing Authority	1	33,329,733.00	22,635,814.00	4	40,211,241.00	7,932,635.00
Cambridge Housing Authority	1	4,366,651.00	2,668,378.00	3	21,712,470.00	10,429,362.00
New Bedford Housing Authority	1	4,860,197.00	4,860,197.00	4	5,067,443.00	761,703.00
Providence Housing Authority	1	5,108,903.00	4,844,241.00	0	0	0
New Haven Housing Authority	1	6,045,769.00	4,682,517.00	4	22,210,366.00	13,391,220.00
Total sample	5	53,711,253.00	79,025,120.00	15	89,201,520.00	33,005,904.00

- For those grants selected, obtained checklists and initiation, environmental compliance, procurement, and grant administration documents, including information that would aid the auditors in ensuring that the grant reviews were transparent, accurate, and timely.

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

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 systems,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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 objective:

- Controls over Recovery Act program management.
- Controls over compliance with Recovery Act monitoring policies and regulations.
- Controls over Recovery Act information systems.

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. No weaknesses were identified relative to the controls identified above. 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.

FOLLOW-UP ON PRIOR AUDITS

The Office of Audit in Region 1 has already performed six grantee (PHA) audits that dealt with whether grantees properly obligated and expended/administered the formula/competitive grants. The Recovery Act audits were as follows:

1. The Hartford, CT, Housing Authority's Plan To Replace Boilers Did Not Meet Recovery Act and Federal Efficiency Requirements, dated July 21, 2010, Audit Report No. 2010-BO-1005
2. The Manchester Housing Authority in Manchester, CT, Obligated Its Recovery Act Grant Funds in a Timely Manner for Eligible Projects and Properly Supported Expenditures, dated September 21, 2010, Audit Report No. 2010 BO 1009
3. The Boston MA, Housing Authority Generally Administered Its Capital Fund Recovery Grant as Required, dated September 27, 2010, Audit Report No. 2010-BO-1010
4. The Cambridge, MA, Housing Authority Generally Administered Its Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded Grant in Accordance With Applicable Requirements, dated November 2, 2010, Audit Report No. 2011-BO-1001
5. The New Bedford Housing Authority, New Bedford, MA, Generally Administered Its Public Housing Capital Fund Stimulus Formula and Competitive Grants (Recovery Act Funded) in Accordance With Applicable Requirements, dated March 3, 2011, Audit Report No. 2011-BO-1006
6. The New Haven CT, Housing Authority Did Not Support Cost Reasonableness for More Than \$1.4 Million or Properly Obligate \$60,000 of Its Capital Fund Stimulus Recovery Act Fund, dated December 17, 2010, Audit Report No. 2011-BO-1003

Four of the audits (1 through 4) on this list dealt specifically with our sample selection. For two of these six audits, the Office of Inspector General (OIG) reported findings. The audits were the Hartford Housing Authority in Hartford, CT, and the New Haven Housing Authority in New Haven, CT.