Issue Date January 4, 2011	
Audit Report Number 2011-AO-1003	

TO: Cheryl J. Williams, Director, Office of Public Housing, 6HPH

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Gulf Coast Region, 11AGA

SUBJECT: The Housing Authority of East Baton Rouge Parish, Baton Rouge, LA, Generally Ensured That It Met HUD and the Recovery Act Requirements but Incurred an Ineligible Expenditure

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of East Baton Rouge Parish's (Authority) American Recovery and Reinvestment Act of 2009 (Recovery Act) Public Housing Capital Fund obligations. Our audit objective was to determine whether the Authority met HUD and Recovery Act requirements when obligating and expending funds it received under the Recovery Act. We initiated the audit as part of our audit plan and goal to review funds provided under the Recovery Act.

What We Found

Overall, the Authority generally ensured that it met HUD and Recovery Act requirements. Specifically, it obligated Recovery Act capital funds for eligible projects, maintained proper support for its obligations, and ensured that it had adequate management controls over its obligation process. In addition, the Authority's Recovery Act projects were in progress, and it appeared that the

Authority would spend its Recovery Act funds within the required timeframes. However, it did not always ensure that Recovery Act expenditures were eligible. This condition occurred because the Authority wanted to exhaust all of its Recovery Act funds before charging expenditures to its regular capital funds and it had not developed adequate written accounting policies and procedures. As a result, the Authority spent $13,561 for ineligible costs.

What We Recommend

The Authority corrected the transaction which generated the $13,561 of ineligible costs, and charged it to the appropriate funding source. However, we recommend that HUD's Director of Public Housing require the Authority to develop and implement adequate written accounting policies, which include procedures for processing and paying invoices, to ensure that Recovery Act funds are properly spent and accounted for.

Auditee's Response

We provided a copy of the draft report to the Authority on December 1, 2010. We held an exit conference with the Authority on December 7, 2010. We asked the Authority to provide written comments to the draft report by December 10, 2010 and it provided written comments on December 14, 2010. The Authority generally agreed with our findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in the appendix section of this report.

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BACKGROUND AND OBJECTIVE

The Housing Authority of East Baton Rouge Parish (Authority) is an independent, autonomous agency, governed by a seven-member board of commissioners. The Authority owns, operates, and maintains multifamily units or apartments in 13 public housing development sites in Baton Rouge, LA, which contain more than 1,000 units. The Authority's main office is located at 4731 North Boulevard, Baton Rouge, LA.

The Authority receives capital funds annually via a formula grant from the U. S. Department of Housing and Urban Development (HUD). It may use its capital funds for development, financing, modernization, and management improvements for its public housing developments. The Authority received more than $1.7 million in formula capital funds in both 2008 and 2009.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) into law. The Recovery Act appropriated $4 billion for the Public Housing Capital Fund program to carry out capital and management activities for public housing agencies. It allocated $3 billion for formula grants and $1 billion for competitive grants. For both grant types, the Recovery Act required agencies to obligate 100 percent of the funds within 1 year of the date on which funds became available to the agency for obligation. In addition, the Recovery Act required agencies to expend 60 percent within 2 years and 100 percent within 3 years of such date.

HUD allocated more than $2.3 million to the Authority for its Recovery Act Public Housing Capital Fund Stimulus grant (formula grant). HUD made the formula grant available to the Authority on March 18, 2009, resulting in a statutory obligation deadline of March 17, 2010. If the Authority failed to comply with the obligation deadline, the Recovery Act required HUD to recapture all remaining unobligated funds awarded to it and reallocate such funds to agencies that complied with those requirements.

HUD required the Authority to use its formula grant on eligible activities already identified in either its annual statement or 5-year action plan (approved plans).[1] The Authority obligated its entire formula grant by March 17, 2010, and as of August 10, 2010, had spent $388,278 (17 percent). Our objective was to determine whether the Authority met HUD and Recovery Act requirements when obligating and expending funds it received under the Recovery Act.

[1] The annual statement, annual plan, and 5-year action plan are all components of the Authority's comprehensive plan. The HUD-approved comprehensive plan sets forth all of the Authority's physical and management improvement needs for its public housing developments.

RESULTS OF AUDIT

Finding: The Authority Generally Ensured That It Met HUD and Recovery Act Requirements but Incurred an Ineligible Expenditure

The Authority generally ensured that it met HUD and Recovery Act requirements. Specifically, it obligated Recovery Act capital funds for eligible projects, maintained proper support for its obligations, and ensured that it had adequate management controls over its obligation process. In addition, the Authority's Recovery Act projects were in progress, and it appeared that the Authority would expend its Recovery Act funds within the required timeframes. However, it did not always ensure that Recovery Act expenditures were eligible. This condition occurred because the Authority wanted to exhaust all of its Recovery Act funds before charging expenditures to its regular capital funds and had not developed adequate written accounting policies and procedures. As a result, it spent $13,561 for ineligible costs.

The Authority Obligated Recovery Act Funds by the Statutory Deadline and for Eligible Projects

On March 18, 2009, HUD authorized more than $2.3 million in Recovery Act funds to the Authority for the purpose of carrying out capital and management activities at its public housing developments in accordance with the requirements of the Recovery Act. The Authority was required to obligate 100 percent of the funds by March 17, 2010. As of February 13, 2010, it had only obligated about 4 percent of the formula grant funds and was at risk of losing its allocated funding. However, by February 25, 2010, it had obligated 100 percent of the funds, meeting the March 17, 2010, statutory deadline.

HUD also required the Authority to use the funds on capital fund-eligible activities identified in either its annual statement or 5-year action plan. In line with this requirement, the Authority obligated the funds for eligible capital improvement projects that were included in its 2008 5-year action plan. Specifically, the projects included electrical upgrades and heating, ventilation, and air conditioning (HVAC) installation at three of its public housing sites. The public housing sites were Monte Sano Village, Kelly Terrace, and Zion Terrace and were funded with both Recovery Act and regular capital funds as shown below.

Public housing site	Regular capital funds obligated	Recovery Act funds obligated	Total amount budgeted
Monte Sano Village	$993,000	$0	$993,000
Kelly Terrace	$235,088	$959,912	$1,195,000
Zion Terrace	$0	$1,297,000	$1,297,000
Totals	$1,228,088	$2,256,912	$3,485,000[2]

The Obligation Process Had Proper Management Controls

As part of the Recovery Act requirements, HUD's Public and Indian Housing Notice 2009-12 required housing authorities to amend their procurement standards and policies as necessary to expedite and facilitate the use of the Recovery Act funds. To satisfy this requirement, the Authority incorporated the Recovery Act requirements into a board resolution which served as an addendum to its existing procurement policy, and HUD deemed this action acceptable. Therefore, we determined that the Authority generally ensured that it had proper management controls during the obligation process.

The Obligations Were Properly Supported

To support its obligation, the Authority entered into an agreement on June 1, 2009, with a design professional (architect) to provide architectural and engineering services and a general contractor on February 25, 2010, to perform the HVAC installation, electrical upgrades, and all other services required to complete its projects. A review of the contract files for both the architect and general contractor determined that the Authority ensured that it followed HUD and Recovery Act requirements when procuring the services and executing the agreements. Therefore, we determined that the contracts were properly awarded and the Authority maintained proper support for its Recovery Act obligations.

The Recovery Act's Project Work Was in Progress

The Kelly Terrace and Zion Terrace public housing sites did not previously have central air conditioning units. The contracted indoor HVAC work included but was not limited to installing air handling units, ducts, ceiling and return vents, and wiring. The outdoor HVAC work included but was not limited to installing concrete slabs and steel cages, the condenser units, line runs (i.e., copper freon line, drain line,

[2] Of the $3,485,000, the $2,362,612 obligated under Recovery Act funding totaled $2,256,912 ($959,912 + $1,297,000) for the general contractor plus $105,700 for the architect.

electrical, etc.), main power (disconnect) boxes, and the ground fault reception indicator boxes.

We conducted site visits to verify whether the Authority ensured compliance with the Recovery Act's "buy American" requirements and whether HVAC work was in progress and/or completed. We conducted site visits to 20 units, including 10 at the Kelly Terrace and 10 at the Zion Terrace public housing sites. The site visits determined that as of September 21, 2010, the HVAC installation was in progress for all 10 units at Kelly Terrace and 6 units at Zion Terrace, and the Authority ensured that it met the Recovery Act's "buy American" requirements.

Specifically, the air handling and condenser units were installed and either running or being tested for all 10 units at Kelly Terrace. According to the Authority, all of the air conditioning units that were installed and operating would require testing before they could be determined 100 percent complete. At Zion Terrace, HVAC-related work, such as vent and duct installations, was in progress for the six units, and the condenser units had been installed at these six units. Of the remaining four units at Zion Terrace, one unit was offline due to renovations, and no work had begun at three units. The pictures below show some of the HVAC work that was in progress at the two sites.

Picture 1 – Kelly Terrace, Unit 55: Indoor air handling unit installed.

Picture 2 – Kelly Terrace, Unit 82: Outdoor condenser unit installed as well as concrete slab with steel cage and line runs. Testing of some of the HVAC installations was visibly in progress.

Picture 3 – Kelly Terrace, Unit 10: Installed ceiling vent.

Picture 4 – Zion Terrace, Unit 29: Duct work.

The architect's contract outlined the phases of work as follows:

Phases of work	
1	Schematic design/preliminary study phase
2	Design development phase
3	Bidding, construction, and contract document phase
4	Bidding and award phase
5	Construction phase
6	Post completion/warranty phase

At the time of our site visits, the architect was in phase five. However, we noted that the Authority required the contractor to complete the project work by October 6, 2010, which was15 days after our site visits, and we were, therefore, concerned that the contractor would not meet the deadline. When asked, the Authority stated that it had encountered permitting issues with the City of Baton Rouge. Therefore, it submitted a change order, extending the contract date for substantial completion from October 6 to December 10, 2010. The Authority also stated that all Recovery Act funds would be spent by that date and, therefore, it would complete the project work and spend its Recovery Act funds well within the Recovery Act timeframes.

To ensure compliance with the Recovery Act's "buy American" requirements, the Authority required the contractors to provide supply lists indicating the product name and supplier. We determined that the supplies used were from American suppliers.

Ineligible Expenditure

As of August 10, 2010, HUD approved three drawdowns[3] submitted by the Authority from its Recovery Act funds totaling $388,278. Although a review of the supporting documentation for the expenditures determined that $374,717 was eligible and supported, one drawdown included $13,561[4] in ineligible costs.

Under the general contractor's agreement, the Authority executed the four change orders listed below.

[3] The Authority provided documentation for four drawdowns, totaling $468,332; however, only three were approved as of August 10, 2010, which totaled $388,278.

[4] The questioned costs based on file documentation were $15,067; however, the actual amount included in the drawdown was $13,561 ($15,067 minus $1,506 for retainage fees).

Change order number	Date	Applicable to Recovery Act-funded projects?	Description
001	08/09/2010	Yes (partially)	This change order increased the contract amount by $34,569. Within the change order, there was a provision for attic access panels for Kelly Terrace costing $21,525 of the $34,569.
002	09/22/2010	Yes	This change order was for the relocation of the overhead gas lines at Kelly Terrace and the removal and replacement of kitchen vent hood ducts at Zion Terrace; and increased the contract amount by $23,686.
003	09/27/2010	No	This change order modified electrical service at Monte Sano; and increased the contract amount by $46,765.
004	10/08/2010	Yes	This change order extended the contract to December 10, 2010, with no increase to the contract amount. At the time of our audit, the change order was not fully executed due to ongoing negotiations between the Authority and contractors concerning potential monetary changes to the contract. However, the Authority stated that work continued and had not been delayed as a result of the negotiations.

The contractor incurred $13,561[5] in expenditures related to change order number 001 during the period June 3 to July 8, 2010, which should have been drawn down from the Authority's regular capital funds. However, when the Authority drew down Recovery Act funds under one drawdown, dated August 10, 2010, it included this expenditure. Since the change order for this expenditure was executed after the Recovery Act obligation date and was budgeted under the Authority's regular capital funds, the $13,561 was ineligible for disbursement from the Recovery Act funds.

During an update meeting, the Authority explained that it planned to spend all of its Recovery Act funds for the Kelly Terrace project before spending its regular capital funds. It asserted that the $13,561 payment drawn from the Recovery Act funds did not have a significant impact because the total amount of Recovery Act funds obligated could not be exceeded. Therefore, the amount expended from the Recovery Act funds would remain the same, regardless of the order of the drawdowns. However, by drawing down these Recovery Act funds, the Authority incurred an ineligible expenditure.

Since Office of Management and Budget (OMB) guidance in OMB Memorandum M-09-10 requires the Authority to ensure that all funds provided by the Recovery Act are clearly distinguishable from non-Recovery Act funds, we, as well as HUD, informed the Authority that it must reverse the transaction and apply the expenditure correctly. The Authority agreed to reverse the payment transaction to correctly post the expenditure to the regular capital fund. Specifically, the Authority agreed to transfer the funds back to HUD so the expenditure would be reimbursed and charged correctly in its systems.

We also determined that the Authority did not have adequate written accounting policies and procedures for processing and paying invoices. Adequate written accounting policies and procedures may have prevented the Authority from incurring the ineligible expenditure. Therefore, HUD must ensure that the

[5] This expenditure was part of the $21,525 added via change order 001 for the provision of attic access doors for Kelly Terrace as shown in the table above.

Authority develops and implements adequate accounting policies and procedures to help to avoid incurring ineligible expenditures in the future.

Authority Provided Additional Information

At the exit conference, the Authority explained that, instead of transferring the funds back to HUD, it reduced a subsequent drawdown from the Recovery Act funds by $13,561to correct the ineligible payment transaction. The Authority indicated that this was a more logical method for making the correction because it would yield the same end result. However, we and HUD informed the Authority that it was necessary to follow the process as outlined by HUD Headquarters for the transferring of funds because it allowed HUD to better track the Recovery Act funds. Accordingly, on December 7, 2010, the Authority completed the transfer to reimburse the Recovery Act fund grant, correcting the transaction as previously agreed.

Conclusion

Based on our audit, although the Authority incurred and later corrected $13,561 of ineligible costs, it generally ensured that it met HUD and Recovery Act requirements. Specifically, it obligated capital funds for eligible projects. The obligation process had proper management controls for the more than $2.3 million in Recovery Act funds, and the obligations were properly supported. Additionally, the Authority's Recovery Act projects were well underway, and it appeared that the projects would be complete and all Recovery Act funding would be spent by the required deadlines. However, HUD must ensure that the Authority develops and implements adequate written accounting policies and procedures, so that it will not incur further ineligible expenditures.

Recommendations

We recommend that HUD's Director of Public Housing, New Orleans, LA, require the Authority to

1A. Develop and implement adequate written accounting policies, which include procedures for processing and paying invoices, to ensure that Recovery Act funds are properly spent and accounted for.

SCOPE AND METHODOLOGY

We conducted our audit at the Authority's office in Baton Rouge, LA, and the HUD Office of Inspector General (OIG) office in New Orleans, LA. We performed our audit between September and November 2010.

To accomplish our audit objective, we

- Obtained and reviewed relevant laws, regulations, program guidance, and grant agreements relevant to the Recovery Act.
- Interviewed HUD and Authority staff.
- Analyzed and reviewed the Authority's Recovery Act contracts and obligations.
- Analyzed and reviewed the Authority's audited financial statements.
- Analyzed and reviewed HUD reviews of the Authority's Recovery Act activities.
- Analyzed the Authority's annual statement, 5-year plans, and required budget submissions to HUD.
- Reviewed the Authority's board meeting minutes.
- Reviewed the Authority's written procurement policy.
- Analyzed the Authority's compliance with Recovery Act reporting requirements.
- Conducted site visits and inspected Recovery Act-funded units.
- Analyzed and reviewed 100 percent of the Authority's Recovery Act expenditures.

We completed a 100 percent review of the Authority's two Recovery Act contracts totaling more than $3.5[6] million and Recovery Act expenditures documented in three approved drawdown requests totaling $388,278. For our site visit, we randomly selected a total of 20 units at the Kelly Terrace and Zion Terrace project sites. We used the scope of work detailed in the project specifications to assess compliance with the contract terms.

Our audit scope covered January 1 through August 31, 2010. We expanded the scope as needed to accomplish our objective. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

[6] The total contract amounts were $3,590,700 ($3,485,000 general contractor + $105,700 architect). Of this total, $2,362,612 was funded via the Recovery Act capital funds and $1,228,088 via regular capital funds.

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 objective:

- Accounting policies and procedures implemented by the Authority to reasonably ensure that Recovery Act obligations are accurately accounted for and expenditures are applied correctly.
- Procurement policies and procedures established and/or followed by the Authority.

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 ensure that Recovery Act funds were properly spent (see finding).

- The Authority did not have adequate written accounting policies and procedures (see finding).

Appendix

AUDITEE COMMENTS AND OIG'S EVALUATION

Auditee Comments

Housing Authority of East Baton Rouge Parish * 4731 North Boulevard * Baton Rouge, LA 70806
Phone: (225) 923-8100 Fax: (225) 923-8109 TDD: (225) 923-8121

December 14, 2010

Ms. Nikita N. Irons
U.S. Department of Housing
And Urban Development
500 Poydras Street, 11th Floor
New Orleans, Louisiana 70130

Dear Ms. Irons:

Please allow this correspondence to serve as our response to the draft audit report of our ARRA Public Housing Capital Fund.

Internal Controls:
Significant Deficiencies

Comment 1 Although the audit has determined the change order and associated cost of $15,067 to be an ineligible grant expenditure, we would like noted that it is an eligible "contract" item and expenditure.

The term "significant" is exaggerating and is very strong language on the finding. The $15,067 represents 4% of the $388,278 expended at the time of the review and 1% of the overall approved grant. It is also noted that upon completion of the contract, the ARRA budget and contract obligation would have been the same as originally approved.

We do not believe that written policy and procedure would have detected the ineligible expense. The ineligibility is a matter of accounting and technical interpretation.

Results of Audit-Recommendations

Comment 2 As per the HUD New Orleans Field Office instruction, the Housing Authority has drawn funds from the 2009 Capital Fund Program and completed a wire transfer in the amount of $15,067, reimbursing the ARRA Capital Fund grant. Confirmation of the transfer is attached. The expenditure has been paid to the contractor with CFP funds.

The Housing Authority will develop written accounting policy and procedures within sixty (60) days of the final report.

Sincerely,

//Signed//
Richard L. Murray
Chief Executive Officer

Attachment

OIG Evaluation of Auditee Comments

Comment 1 The Authority asserted that, although the audit has determined the change order and associated cost of $15,067 to be an ineligible grant expenditure, they would like noted that it is an eligible “contract” item and expenditure. Further, the term “significant” is exaggerating and is very strong language on the finding. The $15,067 represents 4 percent of the $388,278 expended at the time of the review and 1 percent of the overall approved grant. The Authority also noted that upon completion of the contract, the Recovery Act budget and contract obligation would have been the same as originally approved. The Authority does not believe that written policy and procedure would have detected the ineligible expense and that the ineligibility is a matter of accounting and technical interpretation.

We acknowledge the Authority's viewpoint in regards to the nature of the expenditure. While the expenditure was eligible as per the contract, its payment from the Recovery Act funds was ineligible. Therefore, since our audit was focused on the Authority's obligation and expenditure of Recovery Act funds per federal requirements, we deemed an ineligible expenditure of any amount to be of significance. Although the expenditure may not have affected the Recovery Act budget and obligations overall, the proper accounting of it was necessary to ensure clear distinguish ability under the Recovery Act funds. Accordingly, we believe that written accounting policies and procedures that also include the processing of Recovery Act invoices would help to ensure that the Recovery Act funds are properly spent and accounted for.

Comment 2 The Authority asserted that, as per HUD New Orleans Field Office's instruction, it drew down funds from the 2009 Capital Fund Program and completed a wire transfer in the amount of $15,067 to reimburse the Recovery Act Capital Fund grant. The Authority provided confirmation of the transfer in an attachment. The Authority also asserted that the expenditure had been paid to the contractor from its regular capital funds. In addition, the Authority stated that they will develop written accounting policy and procedures within sixty (60) days of the final report.

We acknowledge the Authority’s cooperation in correcting the transaction and agreeing to develop written accounting policies and procedures. The Authority provided documentation showing that it corrected the transaction. We revised the report reflecting the Authority’s actions and removed the recommendation for the Authority to repay the ineligible costs. However, since the Authority had not completed its written accounting policies and procedures, we did not remove this recommendation. Upon completion, the Authority should provide supporting documentation to HUD’s staff, which will assist the Authority with resolving recommendation 1A.