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Audit Report Number 2011-PH-1011

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH
//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Wilmington, DE, Housing Authority Generally Administered Its Public Housing Capital Fund Recovery Act-Funded Formula and Competitive Grants in Accordance With Applicable Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Wilmington Housing Authority's (Authority) administration of its Public Housing Capital Fund formula and competitive grants that it received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We selected the Authority for audit because it received a \$5.2 million Public Housing Capital Fund Formula (Recovery Act-Funded) grant and two Public Housing Capital Fund Competitive (Recovery Act-Funded) grants totaling \$13.6 million,¹ which was the largest formula grant and the largest amount of capital fund competitive grants awarded in the State of Delaware. Our objective was to determine whether the Authority administered capital funds provided under the Recovery Act according to the requirements of the Recovery Act and applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations.

¹ \$13.6 million = a \$10 million grant under Creation of Energy-Efficient, Green Communities Option 1 (substantial rehabilitation or new construction) and a \$3.6 million grant under Creation of Energy-Efficient, Green Communities Option 2; (moderate rehabilitation).

What We Found

The Authority generally administered its capital fund grants according to the requirements of the Recovery Act and applicable HUD rules and regulations. It used grant funds for eligible activities, obligated grant funds within the established deadlines, received and disbursed grant funds in a timely manner, generally complied with applicable procurement requirements, maintained documentation to support expenditures, and generally calculated and reported job count information in accordance with Recovery Act guidance.

What We Recommend

This report does not contain recommendations.

Auditee's Response

We provided a discussion draft audit report to the Authority on June 1, 2011, and discussed it with the Authority at an exit conference on June 8, 2011. The Authority provided written comments to the draft audit report on June 8, 2011. The Authority agreed with the conclusions in the report. The complete text of the Authority's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The Wilmington Housing Authority (Authority) was created in March 1938 when the Delaware Board of Housing determined that there was a need for a housing authority in the city of Wilmington. The Authority is governed by a nine-member board of commissioners. The current executive director is Frederick Purnell. The Authority's main administrative office is located at 400 North Walnut Street, Wilmington, DE.

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 requires that \$3 billion of these funds be distributed as formula grants and the remaining \$1 billion be distributed through a competitive process. The U.S. Department of Housing and Urban Development (HUD) awarded the Authority a total of \$18.8 million² in Public Housing Capital Fund Recovery Act-funded grants. Title XII of the Recovery Act addresses the requirements for HUD's appropriations under the Act.

The Recovery Act and HUD's Office of Public and Indian Housing (PIH) Notice PIH 2009-12, required public housing agencies to use formula funds on eligible capital fund activities currently identified in either its annual statement or 5-year action plan. The annual statement and 5-year action plan are the agencies' plans for using capital funds. They include general descriptions of major work categories along with estimated costs for each of the planned activities.

The Authority allocated its formula grant to the demolition of public housing units, sidewalk improvements, kitchen and bathroom renovations, window replacement, and administrative expenses. It allocated its \$10 million competitive grant to the demolition and redevelopment of a high rise into a mixed-use and mixed-income development. The Authority allocated its \$3.6 million competitive grant to renovate 180 housing units and install high-efficiency furnaces, air conditioners, tankless water heaters, Energy Star appliances, over-the-range microwaves, and electronic ignition stoves.

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing Public Housing Capital Fund program grants. For example, the Recovery Act required the Authority to obligate 100 percent of its formula grant funds by March 17, 2010. It also required it to expend 100 percent of the grant funds by March 17, 2012. Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act.

Our objective was to determine whether the Authority administered capital funds provided under the Recovery Act according to the requirements of the Recovery Act and applicable HUD rules and regulations.

² \$18.8 million = a \$5.2 million Public Housing Capital Fund Formula (Recovery Act-Funded) grant awarded in March 2009 and two Public Housing Capital Fund Competitive (Recovery Act-Funded) grants totaling \$13.6 million awarded in September 2009.

RESULTS OF AUDIT

Finding: The Authority Generally Administered Grant Funds in Accordance With Applicable Requirements

The Authority generally administered its grant funds in accordance with the requirements of the Recovery Act and applicable HUD rules and regulations. It used grant funds for eligible activities included in its annual plan or 5-year action plan, obligated grant funds within the established deadlines, received and disbursed grant funds in a timely manner, generally complied with applicable procurement requirements, maintained documentation to support expenditures, and generally calculated and reported job count information in accordance with Recovery Act guidance.

HUD Closely Monitored the Authority's Recovery Act Grants

HUD had monitored the Authority's Recovery Act grants six times since January 2010. The monitoring efforts performed by HUD included two each of the following types of reviews: remote monitoring, quick-look monitoring, and onsite monitoring. The purpose of HUD's monitoring efforts was to determine whether the Authority was administering Recovery Act capital funds in accordance with all applicable regulatory and programmatic requirements. The scope of HUD's monitoring consisted of reviewing grant initiation and approval, environmental compliance, procurement and contract documentation, and Recovery Act performance. HUD's monitoring efforts identified 73 issues, most of which were related to the Authority's procurement practices. However, most of the issues identified by HUD's monitoring were closed before our audit began. Specifically, the Authority took corrective action on 46 of the issues, and HUD closed them. Only 14 of the 73 issues HUD identified related to contracts that we reviewed. Four of the issues were closed before our audit began. For 10 issues, the Authority recently submitted responses to HUD. However, eight of these issues were not related to our audit work.

The Authority Used Grant Funds for Eligible Activities Included in Its Annual Plan or 5-Year Action Plan

The Authority selected and funded eligible activities from its annual plan and 5-year action plan. Under the Recovery Act, HUD issued Notice PIH 2009-12, which required the Authority to use formula grant funds for activities currently identified in either its annual plan or 5-year action plan. All of the activities that the Authority selected were either in its annual plan or 5-year action plan. The Authority selected activities that were eligible to be funded with its Recovery Act formula grant. It allocated its formula grant to the demolition of public housing units, sidewalk improvements, kitchen and bathroom renovations, window replacement, and administrative expenses. The following pictures show one of the work items that the Authority funded with its Recovery Act formula grant.



Before (left) and after (right) pictures illustrate the demolition of public housing units at Riverside (completed).

The Authority allocated its \$3.6 million competitive grant to the renovation of 180 units in its Southbridge family development. Renovations included the installation of high-efficiency furnaces, air conditioners, tankless water heaters, Energy Star appliances, over-the-range microwaves, and electronic ignition stoves. In addition, the Authority allocated its \$10 million competitive grant to the demolition and redevelopment of Lincoln Towers into a mixed-use and mixed-income development. When completed, Lincoln Towers will contain 88 units of age-restricted elderly, mixed-income, low-income, and Section 8 households. The following pictures show some of the work items that the Authority funded with its Recovery Act competitive grants.



New high-efficiency furnaces (left) and tankless water heaters (right) were installed in units at the Southbridge family development (ongoing).



Before (left) and after (right) pictures illustrate the demolition and redevelopment of Lincoln Towers (ongoing).

The Authority Met the Required Obligation Deadlines

Under the Recovery Act and HUD Notices PIH 2009-12 and PIH 2010-34, the Authority was required to obligate 100 percent of its formula grant by March 17, 2010, and competitive grants by September 22 and 23, 2010.³ Our review of all of the Authority’s contracts and purchase orders related to the three Recovery Act grants showed that the Authority obligated 100 percent of its Recovery Act grants by the required deadlines.

³ The obligation deadline for Creation of Energy Efficient, Green Communities, Option 1; (substantial rehabilitation or new construction) was September 22, 2010, and for Creation of Energy Efficient, Green Communities, Option 2; (moderate rehabilitation) was September 23, 2010.

The Authority Was Expending Funds as Required

The Recovery Act and HUD Notice PIH 2009-12 required the Authority to expend at least 60 percent of the formula grant by March 17, 2011. The Authority had expended \$4.1 million, or 79 percent, of its formula grant as of March 8, 2011.

In addition, the Recovery Act and HUD Notice PIH 2010-34 required the Authority to expend at least 60 percent of its competitive grants by September 22 and 23, 2011.⁴ The Authority had expended \$2.1 million, or 21 percent, of its \$10 million competitive grant and \$958,000, or 26 percent, of its \$3.6 million competitive grant as of March 31, 2011. The Authority's expenditure schedules showed that it planned to expend 60 percent of its competitive grant funds by September 22 and 23, 2011, respectively. Based on this, the Authority appeared to be on track to meet the expenditure requirements.

The Authority Received and Disbursed Grant Funds in a Timely Manner

The Authority drew down grant funds from HUD's automated Line of Credit Control System⁵ when the payments were due and after it had inspected and accepted the work. HUD Notices PIH 2009-12 and PIH 2010-34 require the Authority to requisition funds only when payment is due and after inspection and acceptance of the work and to disburse the funds within 3 working days of receipt of the funds. The Authority generally disbursed the funds within 3 working days as required. It maintained adequate documentation to support the disbursements, such as invoices and approved requests for periodic partial payments.

The Authority Generally Complied With Applicable Procurement Requirements

The Authority generally followed HUD procurement regulations and guidance. For example, it

⁴ The 60 percent expenditure deadline for Creation of Energy Efficient, Green Communities, Option 1; (substantial rehabilitation or new construction) is September 22, 2011, and for Creation of Energy Efficient, Green Communities, Option 2; (moderate rehabilitation) is September 23, 2011.

⁵ The Line of Credit Control System is HUD's primary grant disbursement system.

- Amended its procurement policy, as required by HUD Notice PIH 2009-12, to expedite and facilitate the use of grant funds by making State and local laws and regulations inapplicable for Recovery Act grants.
- Awarded contracts competitively in accordance with 24 CFR (Code of Federal Regulations) 85.36 and HUD Handbook 7460.8, REV-2. The Authority advertised and competitively awarded contracts and had sufficient documentation to support the procurement.
- Complied with HUD guidance for implementing the “buy American” requirement of the Recovery Act in HUD Notice PIH 2009-31.
- Generally ensured that contractors complied with Davis-Bacon Act requirements. The Recovery Act required that all laborers and mechanics be paid in accordance with the prevailing wage rates in accordance with the Davis-Bacon Act. HUD Handbook 1344.1, REV-1, also required the Authority to review contractors’ weekly payrolls.

The Authority’s Federal Reporting Generally Met Recovery Act Requirements

The Authority generally complied with all reporting requirements by the required deadlines. It complied with and properly reported its obligations, expenditures, and number of jobs created in accordance with guidance issued in Office of Management and Budget (OMB) Memorandum 10-08. It also complied with the National Environmental Policy Act reporting requirements of the Recovery Act. The Authority entered the number of housing units rehabilitated and units receiving energy efficiency measures into HUD’s Recovery Act Management and Performance System as required.

Two specific provisions in the Recovery Act require quarterly reporting on the part of the Authority. This information must be reported to FederalReporting.gov, a system created and managed by OMB and the Recovery Accountability and Transparency Board. Section 1512 requires recipients and subrecipients to report on the nature of projects undertaken with Recovery Act funds and the number of jobs created and retained. Section 1609 requires agencies to report on the status of compliance with the National Environmental Policy Act for all Recovery Act-funded projects and activities. HUD requires Recovery Act grantees to complete their environmental reviews and enter compliance information into the Recovery Act Management and Performance System.

Conclusion

The Authority generally administered its grant funds in accordance with the requirements of the Recovery Act and applicable HUD rules and regulations.

Recommendations

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

SCOPE AND METHODOLOGY

We conducted the audit from January through May 2011 at the Authority's office located at 400 North Walnut Street, Wilmington, DE, and at our office located in Philadelphia, PA. The audit covered the period March 2009 through December 2010 but was expanded when necessary to include other periods. We relied in part on computer-processed data in the Authority's computer system. We used computer-processed data provided by the Authority that consisted of a listing of contracts related to its Recovery Act-funded capital fund grants and the accumulated expenditures related to those contracts. We used this data to select samples of contracts and expenditures to evaluate the Authority's compliance with applicable procurement and expenditure requirements. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

To achieve our audit objective, we

- Obtained relevant background information.
- Reviewed the Recovery Act and applicable HUD rules, regulations, and guidance.
- Reviewed meeting minutes of the Authority's board of commissioners.
- Reviewed the Authority's fiscal years 2009 and 2010 audited financial statements.
- Reviewed reports from HUD's monitoring of the Authority's Recovery Act grants, dated January 11, 2010, February 12, 2010, June 1, 2010, August 12, 2010, January 11, 2011, and February 24, 2011, and the Authority's responses.
- Selected and tested a sample of 5 contracts valued at \$11.1 million from a universe of 64 contracts valued at \$17.7 million to determine whether the Authority followed applicable procurement requirements. The five contracts included two contracts that were funded with formula grant funds, two contracts that were funded with funds from the \$3.6 million competitive grant, and one contract that was funded with funds from the \$10 million competitive grant. We selected these contracts for review because they had the largest amount of expenditures as of December 31, 2010.
- Reviewed documentation supporting 16 expenditures totaling \$2.2 million that were related to 3 contracts valued at \$10.3 million (1 contract from each of the Authority's 3 Recovery Act capital fund grants). We selected the contracts with the largest amount of expenditures as of December 31, 2010, funded with the formula grant and the \$10 million competitive grant and the contract with the second largest amount of expenditures as of December 31, 2010, funded with the \$3.6 million competitive grant.

- Interviewed the Authority's staff and officials from HUD's Pennsylvania State Office of Public Housing.
- Conducted onsite reviews of work items completed or to be completed by the Authority at its Southbridge, Riverside, Northeast, Crestview, and Lincoln Towers developments where the grant funds were being used. We randomly selected and visited 15 housing units to determine whether the planned activities were either underway or completed and verified that they contained kitchen and bathroom upgrades, Energy Star appliances, and newly installed windows. We also verified the demolition of housing units at one housing development, as well as the demolition of an apartment complex that was being redeveloped.
- Reviewed the Authority's 2010 quarterly reports to the Federal reporting Web site and to HUD's Recovery Act Management and Performance System.
- Reviewed all 33 payrolls associated with a formula grant-funded demolition contract valued at \$732,000 to determine whether the Authority complied with Davis-Bacon Act requirements.

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. The audit included tests of internal controls that we considered necessary under the circumstances.

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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that payments to contractors/vendors are made in accordance with applicable requirements.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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. 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.

APPENDIX

Appendix A

AUDITEE COMMENTS

WHA

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Frederick S. Purnell, Sr., *Executive Director*
Bernadette P. Winston, *Chairwoman*

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June 8, 2011

Mr. John Buck, Regional Inspector General
Department of Housing and Urban Development
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100 Penn Square East
Philadelphia, PA 19107-3380

Re: *WHA Audit Report for PA Capital Fund Recovery Act-Funded Formula
and Competitive Grants*

Dear Mr. Buck:

In response to the audit exit conference conducted at our offices in Wilmington today, the Wilmington Housing Authority accepts the Audit (PH 11 0005) as submitted.

We do wish to thank the OIG auditors Ron Lloyd and Gregg Burgwald for their cooperation and professionalism in working with the WHA staff to complete this review. It was a pleasure to work with them.

Sincerely,

Frederick S. Purnell, Sr.
Executive Director

FSP:sb

C: Dennis Bellingtier, HUD
Judy Axler, HUD
Debra Gardner, HUD
David Kasperowicz, HUD
John Concannon, HUD
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Eustace Kamanja, WHA