



Issue Date	July 25, 2011
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Audit Report Number	2011-CH-1010
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TO: Steven Meiss, Director of Public Housing Hub, 5APH

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, (Region V), 5AGA

SUBJECT: The Rockford Housing Authority, Rockford, IL, Needs to Improve Its American Recovery and Reinvestment Act Contract Administration Procedures

HIGHLIGHTS

What We Audited and Why

We audited the Rockford Housing Authority's (Authority) American Recovery and Reinvestment Act of 2009 (Recovery Act) Public Housing Capital Fund Stimulus Formula and Competitive grants. The audit was part of the activities in our fiscal year 2011 annual audit plan. We selected the Authority based on a citizen complaint. Our objective was to determine whether the Authority administered its grants in accordance with Recovery Act and U.S. Department of Housing and Urban Development (HUD) requirements and its administrative plan.

What We Found

The Authority did not administer its Capital Fund grants in accordance with Recovery Act and HUD's requirements and its administrative plan. Specifically, it did not ensure that (1) its contractors complied with "buy American" and Section 3 requirements (see Appendix C) and (2) construction work was complete before payments were issued. This condition occurred because the Authority lacked adequate procedures and controls to ensure compliance with Federal requirements and its administrative plan. As a result, it was unaware that one of its contractors purchased nearly \$18,000 in materials manufactured outside the

United States, and HUD and the Authority lacked assurance that the contractors followed HUD's Section 3 requirements and work was complete before payments were issued. However, based on our review, the Authority correctly reported its Recovery Act progress and disbursed its grant funds in a timely manner in accordance with HUD's requirements.

The complainant's allegations regarding fraud, waste, abuse, and serious mismanagement regarding Recovery Act funds were not substantiated by the results of this audit.

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated July 20, 2011.

What We Recommend

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to (1) provide documentation to ensure that Capital Fund grants were not used to reimburse the nearly \$18,000 in materials purchased contrary to the Buy American Act, (2) review the products purchased by its remaining contractors to ensure that they were manufactured in the United States, and (3) implement adequate procedures and controls to ensure that Recovery Act activities meet "buy American" and Section 3 requirements and that construction work is complete before payments are made.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our review results and supporting schedules to the Director of HUD's Chicago Office of Public Housing and the Authority's executive director during the audit. We also provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the Authority's executive director on July 18, 2011.

We asked the Authority's executive director to provide comments on our discussion draft audit report by July 18, 2011. The Authority's executive director provided written comments, dated July 18, 2011. The executive director agreed with the report findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report except

for six pages of documentation that were not necessary for understanding the Authority's comments. A complete copy of the Authority's comments was provided to the Director of HUD's Chicago Office of Public Housing.

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BACKGROUND AND OBJECTIVES

The Rockford Housing Authority was established by the State Housing Board of Illinois in July 1951 under the laws of the State of Illinois to provide decent, safe, and sanitary housing. The Authority is governed by a five-member board of commissioners appointed by Rockford's mayor to 5-year staggered terms. As of March 30, 2011, the Authority had four commissioners on its board. The board's responsibilities include overseeing the operations of the Authority and reviewing and approving its policies. The board appoints the executive director. The executive director is responsible for general supervision over the administration of the Authority's business and is charged with the management of its housing projects.

The Public Housing Capital Fund grant is administered by the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing. The grant funds are available for capital and management activities, including development, financing, and modernization of public housing projects. For fiscal year 2010, the Authority was authorized to receive nearly \$3.6 million in funds.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act. The Recovery Act provided an additional \$4 billion to public housing agencies to carry out capital and management activities, including modernization and development of public housing. The Recovery Act required that \$3 billion of these funds be distributed as formula grants and the remaining \$1 billion be distributed through a competitive process. In March 2009, the Authority received a formula grant for nearly \$4.2 million. In addition, it was awarded two competitive grants totaling \$3.8 million in September 2010. According to HUD requirements, the Authority was required to obligate 100 percent of its grant funds within one year, expend 60 percent of the funds within two years, and fully expend the funds within three years. As of December 2010, the Authority had expended all of its formula grant funds. In addition, as of March 2011, the Authority had obligated nearly 11 percent and expended nearly 3 percent of its competitive grant funds.

Our objective was to determine whether the Authority effectively administered its grants in accordance with Recovery Act and HUD requirements. Specifically, we wanted to determine whether the Authority (1) appropriately used Federal funds for program expenditures, (2) ensured that contractors followed Section 3 requirements, and (3) performed construction inspections to ensure that work was complete before issuing payments.

RESULTS OF AUDIT

Finding: The Authority's Contract Administration Procedures Had Weaknesses

The Authority's contract administration procedures had weaknesses. Specifically, the Authority did not ensure that its contractors complied with "buy American" and Section 3 requirements. It also did not ensure that construction work was complete before payments were issued. This condition occurred because the Authority lacked adequate procedures and controls to ensure compliance with Federal requirements and its own policies. As a result, it was unaware that one of its competitive grant contractors purchased \$17,806 in materials manufactured outside the United States. In addition, HUD and the Authority lacked assurance that the contractors followed Section 3 requirements and that construction work was complete before payments were issued.

The Buy American Act Was Not Followed

We judgmentally selected a sample of three of the Authority's 17 Recovery Act contracts for review to determine compliance with Federal requirements. The three contracts selected included one architectural and engineering contract and two construction contracts. The two construction contracts included a contract to install siding at 46 of the Authority's scattered site properties as part of its formula grant activities, and a contract to install furnaces at its Orton Keyes property as part of its competitive grant activities.

Based on our review, we determined that the Authority required its contractors to sign a Buy American Act compliance certification. However, it did not obtain supporting documentation in accordance with the certification to ensure that the contractors followed the requirement. We reviewed the materials purchased by two contractors to determine whether the materials were manufactured within the United States in accordance with the Buy American Act.

The Authority's siding contractor purchased 19 products as part of its contract. Of the 19 products, 5 were produced by manufacturers that had international production facilities in addition to those located in the United States. The five products included insulation, tape, and lumber.

The Authority's furnace contractor purchased furnaces and thermostats to fulfill its contract. The thermostats were purchased from Honeywell. According to a customer service representative from Honeywell, the thermostats purchased were manufactured in China. As of April 29, 2011, the contractor had purchased

\$17,806 in Honeywell thermostats under its contract. However, there was no support that the Authority reimbursed the contractor for the inappropriate purchase.

According to the Authority's modernization coordinator, the Authority did not require its contractors to submit supporting documentation to ensure compliance with the Buy American Act. However, he inspected shipping boxes while performing construction inspections.

The Authority Did Not Have Sufficient Quality Control Procedures for Its Section 3 Program

According to the Authority's Section 3 policy, if a contractor did not need to hire staff to fulfill its contract, it could contribute 5 percent of its total labor costs towards the Authority's education fund to satisfy the Section 3 requirements. However, the Authority did not perform quality control reviews to determine whether the contractor, after certifying that it did not need to hire staff, hired non-Section 3 eligible staff to complete its contract. During our review, we did not note any contractors that hired staff after the contract was executed.

The Authority's Inspection Reports Did Not Show Completion Dates

We reviewed two of the Authority's Recovery Act-funded construction contracts. For the two contracts, the Authority could not provide inspection reports showing that construction work was completed before payments were issued.

For the siding contract, the Authority provided copies of the inspection reports for 8 of the 46 sites included in the contract. The Authority stated that the inspections were performed but could not provide copies of the reports. Of the eight inspection reports provided, only one indicated the completion date of the construction. We compared the construction dates listed on the eight inspection reports with the contractor's invoice dates and the Authority's payment dates. Based on the comparison, the contractor submitted invoices for three of the eight sites before construction began. Because the Authority was unable to provide inspection reports, it could not support that work was completed before the contractor was paid. We inspected 10 of the 46 sites to determine whether new siding was installed and determined that the work had been completed.

For the furnaces contract at the Orton Keyes property, the Authority provided a contract progress tracker. The progress tracker included the dates on which

inspections were performed and a description of activities, such as workers in unit. However, it did not include the date on which the work at each unit was completed. According to the Authority, the date on the progress tracker was the date the work at the unit was completed. However, some of the units appeared under multiple dates. Therefore, the progress tracker did not provide the information necessary to determine the number of units at which work had been completed for comparison with the contractor invoices.

Conclusion

The Authority's contract administration procedures had weaknesses. Specifically, the Authority did not ensure that its contractors complied with the Buy American Act, Section 3 requirements were met, and construction work was complete before payments were issued. This condition occurred because the Authority lacked adequate procedures and controls to ensure compliance with Federal requirements and its own policies. As a result, HUD and the Authority lacked assurance that the requirements of the Recovery Act were followed and was unaware that one of its contractors purchased \$17,806 in materials manufactured outside the United States contrary to the Buy American Act.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing require the Authority to

- 1A. Provide documentation to ensure that Capital Fund competitive grant funds were not used to reimburse the \$17,806 for the materials purchased contrary to the Buy American Act.
- 1B. Conduct reviews of the products purchased by its remaining contractors to ensure that they were manufactured in the United States.
- 1C. Implement adequate procedures and controls to ensure that Recovery Act activities meet "buy American" and Section 3 requirements, and that construction work is complete before payments are made.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws and regulations; HUD's program requirements at 24 CFR (Code of Federal Regulations) Parts 5, 85, 135, 905, and 982; HUD Office of Public and Indian Housing notices; and HUD's Handbook 7460.8 Rev-2.
- The Authority's accounting records, bank statements, contract files, policies and procedures, board meeting minutes for February 2009 through March 2011, organization chart, program annual contributions contract with HUD, and 5-year and annual plans.
- Contractors' accounting records, bank statements, invoices, and payroll calculations.
- HUD's files for the Authority.

We also interviewed the Authority's employees, contractors, and HUD staff.

We reviewed three of the Authority's Recovery Act program contract files. The three contracts reviewed included one architectural and engineering contract and two construction contracts. We also reviewed the materials invoices and payroll reports for the two construction contracts reviewed. We relied in part on data maintained by the Authority in its systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

We performed onsite audit work between March and May 2011 at the Authority's office located at 223 South Winnebago Street, Rockford, IL. The audit covered the period March 18, 2009, through February 28, 2011, but was expanded as determined necessary.

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.

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:

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Reliability of financial reporting – Policies and procedures that management has implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.
- Compliance with applicable 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.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority lacked procedures and controls to ensure that Recovery Act program contractors followed the Buy American Act and Section 3 requirements (see finding).
- The Authority lacked inspection procedures that provided assurance that construction work was complete before payments were issued (see finding).

Separate Communication of Minor Deficiencies

We informed the Authority's executive director and the Director of HUD's Chicago Office of Public Housing of minor deficiencies through a memorandum, dated July 20, 2011.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	<u>\$17,806</u>
Total	<u>\$17,806</u>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



ROCKFORD HOUSING AUTHORITY
Quality People, Quality Homes, Quality Neighborhoods, for a Quality Rockford

Ronald Farrell
Assistant Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
200 N. High Street
Columbus, Ohio 43215

July 18, 2011

RE: Responses to the Draft Audit Report of HUD's OIG Audit

Ronald:

Per our conversation this morning this letter serves to clarify RHA's position and statements in response to the Office of Inspector General's findings.

Regarding Finding 1: "The Buy American Act Was Not Followed"

RHA's position – AGREE

In reviewing the records and additional support provided by the vendor the thermostats in question appear to have been manufactured outside the US. RHA has a pending meeting with Honeywell to determine their position of responsibility in this issue, given the vendor's statement of compliance with Buy American provisions. RHA will provide an update post meeting. In the interim, RHA finance and accounting has rectified the expense by crediting the contract with a non-federal funding source. Please refer to the attached Journal Voucher.

Comment 1

Regarding Finding 2: "The Authority Did Not Have Sufficient Quality Control Procedures for Its Section 3 Program."

RHA's position – AGREE

RHA was in the midst of program policy and procedure reviews at the time of the OIG visit. Policy changes have been made to insure that all contractors who contribute under the 5% allocation are scrutinized (post contract award) to verify the contractor has NOT hired additional staff during the contract period. This is being verified by review of the certified payroll records and onsite audits of the contractor's staff present and onsite during the contractual period. These inspections are being performed by the newly appointed Physical Asset and Quality Assurance Manager – see attached job description and comments on Finding #3 below.

Comment 2

Regarding Finding 3: "The Authority's Inspection Reports Did Not Show Completion Dates"

RHA's position – AGREE

Prior to OIG's visit Ron Clewer, Deputy Executive Director for Asset Management and Development was in the midst of a department restructuring. Mr. Clewer (new to RHA 12/2011) and Mr. Cressman (RHA-ED) had been working on a newly created position within RHA to address inspections both for modernization work (capital expenditures) and operations as a means to insure compliance and quality. Mr. Clewer shared this with Elynn Pierzchalski, OIG during the site review period. Since the conclusion of the review the position has been filled and the inspections are occurring. Charles Dolye, the RHA employee appointed to the position, does

Ref to OIG Evaluation

Auditee Comments

Comment 3

daily progress inspections of the construction projects and documents both in a narrative and photographic capacity. These reports are provided to the Modernization Coordinator as well as Mr. Clewer.

Policy requires that as the construction draw requests come in the status of work be verified against the report findings before authorization to pay is provided. This happens at two levels. The Mod Coordinator reviews and approves and then Mr. Clewer confirms prior to final release. This separation of duties creates a checks and balances procedure to insure proper work performance, quantity and quality prior to payout.

Should you have any questions please do not hesitate calling me.

Sincerely,

John Cressman
Executive Director

CC: Ron Clewer, Deputy Executive Director for Asset Management and Development
Shelly Cassaro, Deputy Executive Director for Finance



223 South Winnebago Street ■ Rockford, Illinois 61102

OIG Evaluation of Auditee Comments

- Comment 1** The Authority provided a report showing funds were transferred from its central office cost center account to its capital fund stimulus account. However, the documentation was not sufficient to show that non-Federal funds were used to purchase the materials. In addition, no documentation was provided to ensure that the Authority reviewed the materials purchased by its remaining contractors to ensure they complied with the "buy American" requirements, or that quality control procedures were implemented to ensure future materials purchases comply with the "buy American" requirements.
- Comment 2** The proposed procedure would ensure that contractors are following the Authority's Section 3 requirements in regards to hiring. No policy documentation was provided to support the implementation of the procedure.
- Comment 3** The proposed procedure would ensure that the Authority is verifying that construction work is complete before payments are issued to the contractors. The job description for the Physical Asset and Quality Assurance Manager was provided. However, no policy documentation was provided to support the implementation of the procedure.

Appendix C

FEDERAL REQUIREMENTS AND THE AUTHORITY'S PROGRAM ADMINISTRATIVE PLAN

The American Recovery and Reinvestment Act of 2009, Section 1605, states that none of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.

HUD Public and Indian Housing Notice 2009-12, section VII, states that the public housing agency shall requisition funds only when payment is due and after inspection and acceptance of the work.

The Authority's Section 3 policy, Resident Hiring Requirements, states that the prime contractor may satisfy the Authority's resident hiring requirements by making a contribution to the Authority's education fund to provide assistance to the Authority's public housing or low- and very low-income neighborhood residents in obtaining training. The level of contribution would be commensurate with 5 percent of the total contract amount.

The Authority's Buy American Act certification states that the bidder verifies that it will submit to the Authority documentation that will verify compliance with the requirements of Section 1605 of the American Recovery and Reinvestment Act.