



Issue Date	July 14, 2011
------------	---------------

Audit Report Number	2011-LA-1013
---------------------	--------------

TO: K. J. Brockington, Director, Los Angeles Office of Public Housing, 9DPH

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The Housing Authority of the County of Los Angeles, Monterey Park, CA,
Generally Administered the Procurement and Contracting of Its Recovery Act
Capital Fund Formula Grant in Accordance With HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the County of Los Angeles' American Recovery and Reinvestment Act Capital Fund formula grant. We performed the audit because Recovery Act reviews are part of the Office of the Inspector General's (OIG) annual plan and because the Authority was the fourth highest overall recipient of Recovery Act capital funds in California.

Our audit objective was to determine whether the Authority administered the procurement and contracting of its Recovery Act Capital Fund formula grant in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

The Authority generally administered the procurement and contracting of its Recovery Act Capital Fund formula grant in accordance with HUD rules and regulations.

What We Recommend

There are no recommendations.

Auditee's Response

We provided the Authority the draft report on July 6, 2011, and held an exit conference with the Authority on July 13, 2011. The Authority generally agreed with our report.

The Authority did not submit a formal response to the report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
The Authority Generally Administered the Procurement and Contracting of Its Recovery Act Capital Fund Formula Grant in Accordance With HUD Rules and Regulations	5
Scope and Methodology	7
Internal Controls	8
Appendixes	
A. Criteria	9

BACKGROUND AND OBJECTIVE

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009. This bill authorized approximately \$4 billion in new Public Housing Capital Fund program funds, of which \$3 billion was distributed using the U.S. Department of Housing and Urban Development's (HUD) 2008 Capital Fund program formula and \$1 billion was awarded through a competitive grant application process.

On March 18, 2009, HUD allocated to the Authority more than \$7.4 million in Capital Fund formula grant funds authorized under the Recovery Act. The funds were obligated among 17 construction projects and administration fees. The funds enabled the Authority to complete construction projects for parking lots and sidewalks, elevator modernization, common area flooring replacement, Americans with Disabilities Act upgrades and design, parking maintenance and repair projects, fence replacement projects, window retrofits, and smoke detectors.

The objective of our audit was to determine whether the Authority administered the procurement and contracting of its Recovery Act Capital Fund formula grant in accordance with HUD rules and regulations.

RESULTS OF AUDIT

The Authority Generally Administered the Procurement and Contracting of Its Recovery Act Capital Fund Formula Grant in Accordance With HUD Rules and Regulations

The Authority generally administered the procurement and contracting of its Recovery Act Capital Fund formula grant in accordance with HUD rules and regulations. It properly awarded contracts for its Recovery Act Capital Fund formula grant, and its procurement policies and procedures were adequate.

Contracts Were Properly Awarded

We reviewed 2 of the Authority's 17 contracts, which it awarded for its Recovery Act Capital Fund formula grant, which comprised approximately 31 percent of the total \$7.4 million in grant funds received. The Authority awarded both contracts in compliance with HUD requirements.

- The first contract was for \$1.7 million and was the largest contract awarded for the Recovery Act Capital Fund formula grant. The work to be performed included the replacement and modernization of six parking lots and sidewalks at Carmelitos Housing Development located in Long Beach, CA. The lowest bidder formally withdrew its bid as it was unable to meet the minimum requirements for contract selection. Therefore, the Authority awarded the contract to the second lowest bidder that met the minimum requirements as required by 24 CFR (Code of Federal Regulations) 85.36 for contract selection.
- The second contract was for \$643,787 and was the third largest contract awarded. The work to be performed included the completion of two new parking lots and the replacement and modernization of the existing parking lot, adjacent sidewalks, and all associated work at Nueva Maravilla Housing Development located in East Los Angeles, CA. The Authority awarded the contract to the lowest bidder that provided all required documentation.

The Authority followed all steps required in its internal procurement policies and procedures and met HUD's procurement and contracting requirements.

Procurement Policies and Procedures Were Adequate

The Authority had adequate procurement policies and procedures in place. The policies and procedures were extensive and provided step-by-step instructions regarding the procurement process. Further, the policies and procedures covered the HUD procurement requirements under 24 CFR 85.36. The Authority also incorporated the Recovery Act's requirement to buy American as required in PIH (Public and Indian Housing) Notice 2009-31.

Conclusion

The Authority generally administered the procurement and contracting of its Recovery Act Capital Fund formula grant in accordance with HUD rules and regulations.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the Authority's offices in Monterey Park, CA, between April and May 2011. Our audit generally covered the period March 2009 through May 2011.

To accomplish our audit objective, we reviewed

- Applicable HUD regulations, including 24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments; 24 CFR Part 905, Capital Fund Formula; HUD Handbook 7460.8, The Procurement Handbook for Public Housing Agencies; applicable Office of Public and Indian Housing notices; and Public Law 111-05, American Recovery and Reinvestment Act of 2009.
- The Authority's internal policies and procedures.
- The 2009 HUD monitoring review letter and 2009 HUD monitoring report.
- Contracts obligated for the Recovery Act Capital Fund formula grant to determine whether services were properly procured.
 - We selected a nonstatistical sample of 2 of the 17 contracts obligated for the Recovery Act Capital Fund formula grant.
 - We initially planned to select the two highest contract amounts; however, the two highest contract amounts were awarded to the same contractor. To more fully review the Authority's procurement process, we reviewed the highest contract amounts for two distinct contractors.
 - We selected the highest contract amount and the third highest contract amount. These two contracts comprise approximately 31 percent of the total \$7.4 million in formula grant funds received.

We conducted the review 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 finding and conclusion 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 objective:

- Policies and procedures to ensure that HUD funds are procured and contracted in accordance with HUD requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

We found no significant deficiencies in the relevant controls identified above.

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 auditee's internal control.

Appendix A

CRITERIA

PIH Notice 2009-31 (HA), PIH Implementation Guidance for the Buy American Requirement of the American Recovery and Reinvestment Act of 2009 Including Process for Applying Exceptions, section I, states, “none of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alternation, 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.”

24 CFR 85.36, Procurement

(b) Procurement Standards.

- (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (8) Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.
- (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(c) Competition.

- (3) Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations:
 - i. Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured, and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a brand name or equal description may be used as a means to define the performance or other salient requirements of a procurement. The specific features of the named brand which must be met by offerors shall be clearly stated; and
 - ii. Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

(d) Methods of procurement to be followed.

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in Sec. 85.36(d)(2)(i) apply.

- ii. If sealed bids are used, the following requirements apply:
 - A. The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids.
 - B. The invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond;
 - C. All bids will be publicly opened at the time and place prescribed in the invitation for bids;
 - D. A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs shall be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
 - E. Any or all bids may be rejected if there is a sound documented reason.

HUD Handbook 7460.8, REV-2, The Procurement Handbook for Public Housing Agencies, exhibit, provides guidance on to public housing agencies on procurement for the operation, modernization, and the development of public housing.