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Audit Report Number	2012-FW-1009
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TO: David G. Pohler, Director of the San Antonio Office of Public Housing, 6JPH

FROM: Gerald R. Kirkland,
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Gonzales, TX, Housing Authority Generally Followed Recovery Act Public
Housing Capital Fund Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Gonzales Housing Authority's American Recovery and Reinvestment Act of 2009 Public Housing Capital Fund formula grant because it met the Office of Inspector General's (OIG) most recent audit plan objective to contribute to the oversight objectives of the Recovery Act and the San Antonio Office of Public Housing recommended it for audit. Our objectives were to determine whether the Authority (1) properly obligated and spent its formula grant funds, (2) properly obtained its Recovery Act contracts, and (3) accurately reported its activities in a timely manner.

What We Found

The Authority generally followed Recovery Act requirements with a minor exception. It (1) obligated the entire Recovery Act grant and spent all of the funds on eligible activities by the Recovery Act's deadlines, (2) properly obtained most of its Recovery Act contracts, and (3) reported its activities accurately and in a timely manner. One minor error occurred when the Authority initially obligated funds for administrative expense but then used part of those funds for construction

costs to renovate two vacant units, which resulted in its not obligating \$7,600 by the deadline.

What We Recommend

We recommend that the Director of the U. S. Department of Housing and Urban Development's (HUD) San Antonio Office of Public Housing require the Authority to provide documentation for administrative expenses or repay HUD \$7,600, which will be returned to the U. S. Treasury.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06 REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a draft report to the Authority and HUD on June 1, 2012, and requested a written response by June 8, 2012. We held the exit conference on June 8, 2012, and allowed an extension for written comments until June 11, 2012. The Authority provided a written response to the draft report on June 11, 2012, that stated it would resolve the finding or recommendation in the report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Gonzales Housing Authority was created by Texas law in 1951. It works with the U.S. Department of Housing and Urban Development (HUD) to provide housing to individuals eligible for financial assistance and operates 4 developments with 140 low-rent public housing units and administers 42 housing choice vouchers. The Authority is governed by a board of commissioners appointed by the mayor of Gonzales. It receives capital funds annually by formula grant from HUD and may use its capital funds for development, financing, modernization, and management improvements for its housing developments.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 into law.¹ The Recovery Act provided \$4 billion for public housing agencies to carry out capital and management activities, including the modernization and development of housing. It allocated \$3 billion for formula grants and \$1 billion for competitive grants. The Recovery Act required public housing agencies 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 such date.

HUD allocated \$249,839 to the Authority for one Recovery Act Capital Fund 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 it failed to comply with the obligation deadline, HUD was required to recapture those obligations that did not meet the deadline and return the funds to the U.S. Treasury for the sole purpose of deficit reduction.²

HUD required the Authority to use its Recovery Act formula grant on eligible activities. The Authority included these activities in its HUD-approved annual statement and 5-year action plan. The Authority and HUD determined the improvements needed for long-term physical and social viability to be included in the plans.

Our objectives were to determine whether the Authority (1) properly obligated and spent its formula grant funds, (2) properly obtained its construction services contracts, and (3) accurately reported its activities in a timely manner.

¹ Public Law 111-5

² The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) amended the Recovery Act, requiring recaptured funds to be returned to the U.S. Treasury and dedicated for the sole purpose of deficit reduction.

RESULTS OF AUDIT

Finding: The Authority Generally Followed Recovery Act Requirements

The Authority (1) obligated the entire Recovery Act grant and spent all of the funds on eligible activities by the Recovery Act's deadlines, (2) properly obtained most of its Recovery Act contracts, and (3) reported its activities accurately and in a timely manner. One minor late obligation and improper procurement occurred because the Authority initially obligated funds for administrative expense but then used part of those funds for construction costs to renovate two vacant units, which resulted in its not obligating \$7,600 by the deadline.

The Authority Properly Obligated and Spent All of the Grant

The Authority properly obligated and spent its entire \$249,839 grant by the March 17, 2010, deadline. One minor late obligation occurred because the Authority initially obligated funds for administrative expense but then used part of those funds for construction costs to renovate two vacant units. Administrative expenses are for administrative salaries, legal, benefit contributions, travel, and telephone.³ However, the Authority used the obligated administrative expense to rehabilitate two units and paid \$7,600 on March 31, 2011, for the work.

HUD improperly allowed the Authority to substitute the renovation expenditures for the Recovery Act funds obligated for administrative expense. This condition occurred because HUD warned the Authority of the approaching expenditure deadline, and its executive director informed HUD of the recently renovated units. HUD then approved the use of the Recovery Act funds for those repairs. As a result, the Authority spent all of its Recovery Act funds by the expenditure deadline but did not obligate the \$7,600 by the obligation deadline.

The Authority Properly Obtained Most of Its Recovery Act Contracts

The Authority properly obtained most of its Recovery Act contracts, providing full and open competition. It followed its procurement policies, which complied with Recovery Act requirements. Its contract binder contained the newspaper advertisements, Davis-Bacon wage rate determination, construction

³ HUD Guidebook 7510.1, Chapter 4 accounts 1410

specifications, sign-in sheet, meeting minutes, bid analysis, cost-price analysis, environmental certification, and board minutes awarding the contracts. However, the Authority did not properly follow procurement requirements when it renovated two vacant units, which cost \$7,600. HUD was aware of this issue and was addressing it before the audit started.

The Authority Properly Reported Its Activities

The Authority reported its activities accurately except for the two renovated units and in a timely manner. It reported Recovery Act information in its 2009 annual statement, its 5-year action plan, its Line of Credit (LOCCS) and Recovery.com in an accurate and timely manner.

The Authority accurately reported in LOCCS its approved project budget as follows:

Development account	Recorded in LOCCS
1410 Administration	\$ 15,266
1460 Dwelling structures	<u>234,573</u>
Total grant	<u>\$ 249,839</u>

The Authority reported in its 5-year action plan all of the activities it undertook except for the two renovated units with Recovery Act funds, including the replacement of broken sidewalks and curbing, perimeter fencing, new water cut-offs, and clotheslines. Further, the Authority’s Recovery.com page accurately described the grant amount, what was accomplished, where the work was done, and the project status (complete).

Recommendations

We recommend that the Director of the San Antonio Office of Public Housing require the Authority to

- 1A. Provide documentation for administrative expenses or repay \$7,600 in 2009 Recovery Act funds to HUD, which will return the funds to the U.S. Treasury.

SCOPE AND METHODOLOGY

We conducted our audit work at the Authority's administrative offices in Gonzales, TX, the San Antonio Office of Public Housing, and the HUD Office of Inspector General's (OIG) offices in San Antonio and Fort Worth, TX, between February 21 and April 17, 2012. The audit generally covered March 18, 2009, to March 19, 2012.

To accomplish our objective, we performed the following steps as they related to the Authority's Recovery Act Capital Fund formula grant:

- Reviewed relevant laws, regulations, and HUD guidance.
- Reviewed the Authority's board of commissioners meeting minutes to confirm that the Authority had adopted a Recovery Act-compliant procurement policy.
- Reviewed the Authority's audited financial statements for fiscal year 2011.
- Reviewed the Authority's Recovery Act Capital Fund formula grant agreement, annual statement, and 5-year action plan.
- Reviewed the Authority's procurement records and environmental certification.
- Traced obligations and project costs from procurement through HUD's Line of Credit Control System drawdown of funds for five contracts procured with Recovery Act formula grant funds.
- Reviewed 99.5 percent of the expenditures.
- Interviewed the Authority's executive director to determine general procedures and specifics concerning the minor finding.
- Verified that the Authority's Recovery Act reporting was accurate and timely.
- Conducted site visits of and photographed representative improvements.
- Interviewed HUD Office of Public Housing staff in San Antonio, TX.

We did not assess the reliability of computer-processed data because we based our conclusions on information in hardcopy files.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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:

- Controls to ensure that the Authority followed procurement requirements.
- Controls to ensure that payments were properly authorized and goods and services were received.
- Controls to ensure that the Authority met Recovery Act and HUD reporting 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.

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on 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.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	\$7,600

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

June 11, 2012

**To: Theresa Carroll, CPA
Assistant Regional Inspector General
HUD OIG, Region VI,
Forth Worth, Texas**

**From: Jeanette Conquest
Executive Director
Gonzales Housing Authority
Gonzales, Texas**

Re: OIG's Audit of 2009 ARRA Capital Fund Program

Comment 1

Gonzales Housing Authority acknowledges receipt of Audit Draft. GHA will comply within time allotted to resolve any Audit Findings or recommendations as set forth in HUD Handbook 2000.06 REV-4.

OIG Evaluation of Auditee Comments

Comment 1 The Authority stated that it will resolve the finding or recommendation.