



**Public Housing Capital Fund Program,
Washington, DC**



Issue Date: September 21, 2012

Audit Report Number: 2012-LA-0004

TO: Dominique Blom, Deputy Assistant Secretary for Public Housing Investments, PI
Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ

///SIGNED///

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

SUBJECT: HUD Did Not Ensure Public Housing Agencies' Use of Property Insurance
Recoveries Met Program Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our audit of HUD's Public Housing Capital Fund program monitoring procedures, which are also applicable to the American Recovery and Reinvestment Act of 2009 Capital Fund program.

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

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (213) 534-2471.



September 21, 2012

HUD Did Not Ensure Public Housing Agencies' Use of Property Insurance Recoveries Met Program Requirements

Highlights

Audit Report 2012-LA-0004

What We Audited and Why

We initiated a review of the U.S. Department of Housing and Urban Development's (HUD) Public Housing Capital Fund program and American Recovery and Reinvestment Act (Recovery Act) Capital Fund program monitoring procedures because it was included in our annual audit plan and was prompted by a prior external audit (Office of Inspector General (OIG) audit report 2011-LA-1802, issued May 5, 2011).

Our objective was to determine whether HUD's Capital Fund program monitoring procedures and reporting system details were adequate to ensure that public housing agencies disclosed and used property insurance recoveries in accordance with program requirements.

What We Recommend

We recommend HUD update its information collection requirements to ensure that public housing agencies disclose insurance recoveries, revise its policies and procedures to ensure oversight of the disclosure of insurance recoveries, and issue a notice with guidance for public housing agencies related to the procedures for the disclosure and use of insurance recoveries.

What We Found

HUD did not adequately monitor insurance recoveries to ensure that public housing agencies appropriately applied the applicable credits either as a cost reduction or cash refund as appropriate. HUD's program guidance was outdated and the procedures for the annual in-office review of the agencies' ongoing capital activities and for monitoring Recovery Act program grants were not sufficiently detailed to address the review of insurance recoveries. In addition, the information HUD required agencies to submit in their annual plans and in HUD's Financial Assessment Sub-System lacked sufficient details to be effectively used in the monitoring of insurance recoveries.

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BACKGROUND AND OBJECTIVE

The United States Housing Act of 1937, codified at 42 U.S.C. (United States Code) 1437, established the Federal framework for government-funded affordable housing. The United States Congress established public housing to promote the general welfare of the United States by employing the funds and credit of the United States to assist public housing agencies in providing decent and safe dwellings for low-income families. One amendment to this Act, the Quality Housing and Work Responsibility Act of 1998, established the Public Housing Capital Fund program—formerly the Comprehensive Grant Program.

The U.S. Department of Housing and Urban Development (HUD), Office of Public and Indian Housing (PIH), Office of Capital Improvement, administers the program. The PIH Office of Field Operations oversees the HUD field offices that monitor public housing agencies. The Real Estate Assessment Center, Financial Assessment Division, reviews the agencies' financial statements to assess the financial condition of public housing properties and verifies compliance with HUD financial requirements.

HUD disperses capital funds to public housing agencies under annual contributions contracts to provide funding for development, financing, modernization, and management improvements. In fiscal years 2009 through 2011, HUD provided more than \$10 billion in program funding to 3,139 agencies through the following types of grants:

- Formula – Distributed to agencies annually via a formula method.
- Replacement housing factor – Awarded to agencies that have removed units from inventory for the sole purpose of developing new public housing units.
- Disaster and emergency – Awarded to agencies that confront a non-federally declared disaster or emergency situation and provide a required independent cost estimate at the time of application for funds.
- American Recovery and Reinvestment Act of 2009 – Distributed in fiscal year 2009 partially by the same formula used for amounts made available in fiscal year 2008 and on a competitive basis.
- Capital Fund education and training community facilities – Distributed in fiscal year 2010 to agencies to (1) construct new community facilities, (2) purchase or acquire facilities, or (3) rehabilitate existing facilities to be used as education and training community facilities by agency residents.

The public housing agency's plan is a comprehensive guide to its policies, programs, operations, and strategies for meeting local housing needs and goals. There are two parts to the plan: the 5-year plan, which each agency submits to HUD once every fifth agency fiscal year, and the annual plan, which is submitted to HUD every year in a standardized electronic format. The annual plan serves as the annual application for Capital Fund program grants. It includes a section in which agencies that operate public housing describe the capital improvements necessary to ensure the

long-term physical viability of public housing developments. If the agency is eligible for Capital Fund program funding, it also completes Capital Fund program tables and submits them as an attachment to the annual plan. The tables consist of one standard table (Form HUD-50075.1) that is used either as an annual statement or performance and evaluation report.

Under HUD's reporting model, agencies submit annual audited financial statements to HUD's Real Estate Assessment Center in electronic format using the Financial Assessment Sub-System for Public Housing (FASS-PH). The financial data in FASS-PH are reported in accordance with generally accepted accounting principles as set by the Governmental Accounting Standards Board.

The annual contributions contract between public housing agencies and HUD requires that agencies maintain specified insurance coverage for property and casualty losses. Agencies can purchase insurance coverage from risk retention groups that are approved by HUD in accordance with standards established by regulation.

Our objective was to determine whether HUD's Public Housing Capital Fund program monitoring procedures and reporting system details were adequate to ensure that public housing agencies disclosed and used property insurance recoveries in accordance with program requirements related to applicable credits and ineligible duplication of costs for repairs covered by insurance recoveries.

RESULTS OF AUDIT

Finding: HUD Did Not Ensure Public Housing Agencies' Use of Property Insurance Recoveries Met Program Requirements

HUD did not adequately monitor insurance recoveries to ensure that public housing agencies appropriately applied the applicable credit to their Capital Fund programs. A prior audit found that an agency had mischarged its American Recovery and Reinvestment Act Capital Fund program even though it had received insurance recoveries. HUD's program guidance was outdated and the procedures for the annual in-office review of the agencies' ongoing capital activities and for monitoring Recovery Act program grants were not sufficiently detailed to address the review of insurance recoveries. In addition, the information HUD required agencies to submit as part of their annual plans and audited financial statements lacked sufficient detail to monitor insurance recoveries. As a result, HUD had little assurance that agencies properly disclosed and used up to \$70 million (estimated) in property insurance recoveries per year in accordance with program requirements.

HUD Did Not Monitor Significant Insurance Recoveries

We obtained agency insurance recovery data from Housing Authority Property Insurance (HAPI)¹, who provided property insurance coverage to 555 PHAs, and found that several agencies received significant recoveries. We selected a nonstatistical sample of 10 agencies that had received the highest insurance recoveries from HAPI between 2009 and 2011. These agencies received more than \$12.2 million in combined insurance recoveries over the 3-year period, and three received more than \$1 million in insurance recoveries in a single given year. As a result, the application of the insurance recoveries would be significant to these agencies' housing programs. However, HUD did not specifically monitor the insurance recoveries of the selected agencies for compliance with its Comprehensive Grant Program Guidebook 7485.3 G, Chapter 2, Section 2-20, paragraph 2-20(A)(5) and 2 CFR 225, to ensure that costs reimbursed by insurance recoveries were not duplicated to the Capital Fund program and that the agencies appropriately applied the insurance recoveries either as a cost reduction or cash refund as appropriate.²

¹ HAPI is a nonprofit, tax-exempt mutual insurance company that is owned by agencies.

² We did not perform additional testing to determine how the 10 sample agencies used the applicable property insurance recoveries or if they had charged their Capital Fund or Recovery Act programs. As a result, there is no indication that these 10 agencies violated program requirements.

Agency Mischarged Recovery Act for Costs Reimbursed by Insurance Recoveries

We conducted a prior external audit of the Housing Authority of City of Los Angeles to determine whether the agency's use of Recovery Act capital funds on hazard-damaged units subject to property insurance recoveries met HUD requirements. We found that the agency improperly charged its Recovery Act Capital Fund program without applying cost reductions or credits related to insurance recoveries (OIG audit report 2011-LA-1802, issued May 5, 2011). We recommended that over \$83,000 be credited to the agency's Recovery Act Capital Fund program and for HUD to consider pursuing remedies under the Program Fraud Civil Remedies Act. During the course of this audit we became aware that HUD had no policies or procedures for monitoring agencies' disclosure and use of insurance recoveries.

Program Guidance Was Outdated and Lacked Detailed Written Procedures

HUD's Capital Fund program and Recovery Act Capital Fund program monitoring procedures and controls were inadequate to meet HUD Handbook 1840.1, REV-3, section 1-2, requirements to protect against fraud, waste, and mismanagement of insurance recoveries. HUD's Comprehensive Grant Program Guidebook 7485.3 G was outdated and not sufficiently detailed to specifically address the review of insurance recoveries.

HUD's Guidebook Was Outdated

Although the Guidebook was implemented in October 1996 for the Comprehensive Grant Program, at the time of our audit fieldwork, it was being used by HUD as the guidance applicable to its Capital Fund program. The Guidebook provided instructions, guidance, and processing procedures for use by public housing agencies and HUD field offices. The Deputy Assistant Secretary for the Office of Field Operations informed us that HUD's Guidebook was out of date. HUD had been working on new Capital Fund program regulations but planned to update the program forms and Guidebook when the proposed third Capital Fund program rule (published February 7, 2011) is made final to complete the implementation of the Quality Housing and Work Responsibility Act and the Housing and Economic Recovery Act.

HUD's Monitoring Procedures Lacked Details Related to Insurance Recoveries

Chapter 12 of the Guidebook set forth requirements for an annual in-office review of agency performance. However, the procedures to be followed during the annual in-office review of the agency's ongoing capital activities identified in the annual plan were not detailed and did not specifically discuss the review of

insurance proceeds. The procedures inquired whether “Activities funded with non-CGP [Comprehensive Grant Program] funds are identified”; however, they did not specifically inquire whether any of the listed activities would be partially funded with nonprogram funds or identify the type of other nonprogram funds. We reviewed the HUD monitoring reports for our sample of public housing agencies, and none stated that the field offices had reviewed insurance recoveries.

Additionally, HUD’s monitoring of Recovery Act Capital Fund program funding did not specifically address insurance recoveries. During our sample review of the HUD-prescribed checklist used for monitoring Recovery Act program grants, none had an area that specifically monitored the disclosure or use of insurance recoveries. HUD’s Recovery Act oversight and quality assurance strategies were also not applicable to other program funds.

Insurance Recovery Reporting Was Inadequate

HUD requires public housing agencies to submit annual plans and annual financial statements. However, the information HUD required the agencies to report did not sufficiently specify insurance recoveries. As a result, these reports were insufficient to mitigate the risk of agencies’ duplicating costs to the Capital Fund and Recovery Act Capital Fund programs when insurance recoveries were received.

The Annual Plan Capital Fund Program Tables Lacked a Disclosure Field for Insurance Recoveries

The Capital Fund program tables on the annual plan did not sufficiently disclose insurance recoveries. Should an agency anticipate or have used insurance recoveries in conjunction with program funding, the agency was to report those funds to HUD on line No. 1, “Total non-CFP Funds,” of the tables. However, the tables did not have a specific field to disclose insurance recoveries. As part of our sample testing, we reviewed the tables for formula, replacement housing factor, Recovery Act, emergency, and disaster program grants, and only one table for a disaster grant disclosed insurance recoveries used in conjunction with program funding. Staff from HUD’s field offices stated that there were no specific control mechanisms in place to ensure that agencies disclosed other resources they had or may receive that would be used in conjunction with program funds. HUD would be unaware of insurance recoveries unless it was informed by the agency or it became known to a HUD staff member while reviewing an agency’s proposal for a development, which would include the sources of the funds budgeted for the development.

Financial Statement Submissions Lacked Insurance Recovery Details

The annual financial statement information HUD required agencies to submit to FASS-PH did not specifically disclose insurance recoveries. There are several line items in FASS-PH that may relate to property insurance recoveries, including financial data schedule line items:

- 97200, Casualty Losses – Non-Capitalized;
- 71500, Other Revenue;
- 112, Cash – Restricted – Modernization and Development; and
- 125, Miscellaneous Accounts Receivable.

Although many of our sample agencies identified balances under these line items, there was insufficient detail in FASS-PH to confirm them to the insurance recovery amounts paid by the insurance provider (HAPI). Six of the sampled agencies' financial statements merely disclosed having insurance coverage, and only one agency disclosed that it expected to receive insurance recoveries for property damages. Although Government Accounting Standards Board Statement No. 42 states that the amount and financial statement classification of insurance recoveries should be disclosed if that information is not already evident from the face of the financial statements, the provision need not be applied to items immaterial to the financial statements as a whole. As a result, there was no clear indication that the sampled agencies misreported their insurance claim proceeds, only that there was insufficient detail to verify the amounts identified by the insurance provider with the financial statements submitted to HUD.

Conclusion

HUD's outdated and inadequate monitoring procedures and the lack of disclosure requirements for the receipt and use of insurance recoveries was an internal control weakness. As a result, HUD had little assurance that public housing agencies properly disclosed and used up to \$70 million (estimated)³ in property insurance recoveries per year in accordance with HUD requirements. This weakness increased the risk that agencies may have duplicated property loss repair costs or not credited the applicable insurance recoveries to their Capital Fund programs, including Recovery Act programs, as noted in a prior audit (2011-LA-1802, issued May 5, 2011).

³ Since HUD did not maintain information on total insurance recovery amounts, we estimated the amount using the \$22,330 average annual insurance recovery identified by the insurance provider multiplied by the 3,139 agencies that received program funding in fiscal years 2009 through 2011, under the assumption that the insurance recoveries would be representative of the HAPI amounts.

Recommendations

We recommend that the Deputy Assistant Secretary for Public Housing Investments, in collaboration with the Deputy Assistant Secretary for Field Operations:

- 1A. Update HUD's information collection requirements to ensure that public housing agencies disclose the receipt and use of insurance recoveries.
- 1B. Revise its policies and procedures to ensure that HUD field offices specifically monitor public housing agencies to ensure that they disclose and use property insurance recoveries in accordance with applicable requirements.
- 1C. Issue a notice with guidance for public housing agencies to follow related to the procedures for the disclosure and use of insurance recoveries, which can later be incorporated in the Guidebook.

SCOPE AND METHODOLOGY

Our review generally covered Federal fiscal years 2009 through 2011. We performed our audit work from January through June 2012 from our OIG office in Los Angeles, CA.

To accomplish the audit objective, we reviewed potential areas in which property insurance recoveries may be identified by public housing agencies or reviewed by HUD and tested our sample of agencies against those procedures and documents. Specifically, we

- Reviewed applicable laws and regulations, including Federal regulations and HUD handbooks and guidebooks.
- Reviewed HUD's internal policies and procedures related to field office monitoring and the policies and procedures that the field offices are to follow during their monitoring of Capital Fund and Recovery Act Capital Fund program grant recipients.
- Reviewed HUD's procedures for agencies related to the disclosure of insurance recoveries to be used in conjunction with Capital Fund and Recovery Act Capital Fund program grant funds.
- Conducted interviews with staff from HUD's PIH Office of Capital Improvements, Office of Field Operations, Office for Public Housing and Voucher Programs, Real Estate Assessment Center, and field offices.
- Obtained public housing agency property insurance recoveries data from HAPI, as this information was not available from HUD.
- Selected a sample from the HAPI property insurance recoveries data for testing (see below) and reviewed HUD monitoring reports and information agencies reported to HUD (including annual plans and FASS-PH) and disclosed in their audited financial statements.

We nonstatistically selected a sample of 10 agencies that received property insurance coverage from HAPI with the largest total claims paid amount (excluding Moving to Work agencies⁴). The agencies in our sample received more than \$12.2 million in insurance claim proceeds between January 1, 2009, and November 30, 2011. The cumulative insurance claim proceeds represented 6 percent of the total fiscal years 2009 through 2011 Capital Fund program formula grant funding received by the sampled agencies, or 3 percent, including the Recovery Act program funding. We were unable to determine whether the insurance recoveries were related only to Capital Fund program projects, as some agencies may have received insurance recoveries on other non-Capital Fund projects.

⁴ Moving to Work agencies were excluded from our review because they have exemptions from many existing public housing and voucher rules and more flexibility with how they use their Federal funds.

Testing was performed to assess the reliability of the computer-processed data obtained from HAPI, HUD, and FASS-PH, given the audit objective and intended use of the data. The reliability of insurance recoveries data provided by HAPI was evaluated during this audit and our prior audit (OIG audit report 2011-LA-1802, issued May 5, 2011) by confirming the data for various claims with copies of canceled checks. The reliability of the program funding information provided by HUD was validated with minimal inaccuracies, i.e. revised and cancelled grants, with copies of executed annual contributions contracts. Lastly, the reliability of the data reported in FASS-PH was confirmed by matching the amounts reported in the FASS-PH revenue and expense and balance sheet summaries to the amounts reported in the available financial data schedules attached to some of the agencies' audited financial statements. We determined that a further detailed assessment was unnecessary, as Real Estate Assessment Center staff reviews each agency's financial information annually for accuracy and completeness. The data from HAPI and FASS-PH were used, as they were the only readily accessible data available on the subject.

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 objective:

- Policies and procedures – Controls designed to ensure that public housing agencies disclose and use property insurance recoveries in accordance with HUD Capital Fund and Recovery Act Capital Fund program 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 Deficiency

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 HUD's internal control.

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

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

FROM: Dominique Blom, Deputy Assistant Secretary for
Public Housing Investments, PI

Donald J. Lavoy, Deputy Assistant Secretary for
Field Operations, PQ

SUBJECT: Response to draft audit report on HUD monitoring of insurance
proceeds

The Office of Public and Indian Housing ("PIH") is in receipt of the draft audit report produced by your office and transmitted on August 3, 2012. PIH appreciates the OIG's study of the important issues surrounding PHAs' receipt and use of insurance proceeds when the public housing inventory has been damaged.

The draft audit report estimated the total insurance proceeds paid to PHAs to be up to \$70 million in any given year.¹ As the OIG correctly observed, the receipt of these funds is governed by both HUD authority and other applicable government-wide authority. With regard to HUD's authority, the Consolidated Annual Contributions Contract ("ACC") requires that PHAs carry insurance to protect the PHA from financial loss and requires that proceeds, to the extent possible, be used promptly to restore, reconstruct, or repair damaged or destroyed property unless waived in writing by HUD.² The proceeds are program receipts, as defined in the ACC and are restricted by HUD policy as established within ACC as well as guidance related to financial disclosure and audit requirements for Public Housing program assets. HUD control of insurance proceeds is limited given that these amounts are not distributed by the Department and instead originate external to HUD's federal subsidy amounts. They are paid to the PHA on a transaction by transaction basis and the Department must rely on PHA financial disclosure.

PIH does not believe that the self-reporting of insurance proceeds, on its face, constitutes an internal control weakness. The Government Accountability Office's *Standards for Internal Control in the Federal Government* ("the Green Book")³ and Office of Management and Budget Circular A-123 *Management's Responsibility for Internal Control*⁴ define the obligations of federal agencies to have internal controls in place and to ensure that the controls are sufficient to

¹ Draft Audit Report pg. 8.

² Part A, § 13.

³ Government Accountability Office, STANDARDS FOR INTERNAL CONTROL IN GOVERNMENT (Nov. 1999).

⁴ Office of Management and Budget, CIRCULAR A-123: MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL (Dec. 21, 2004).

provide reasonable assurance, but not absolute assurance, that the agency’s objectives will be met. The compliance supplement for the Public Housing Capital Fund program provides, “[Its] primary objective . . . is to make assistance available to [PHAs] to carry out capital and management improvement activities.”⁵ HUD’s internal controls, then, are designed to ensure that PHAs use the funds provided through the Capital Fund formula to carry out capital and management improvement activities.

Comment 1

PIH is of the view that current requirements meet the standard of providing reasonable assurance, but not absolute assurance, that the agency’s objectives will be met.⁶ The draft audit report addresses four FDS line items that may capture reported insurance proceeds. However, HUD’s FDS Line Definition Guide clarifies that these are to be reported on “Line 112, Cash – Restricted – Modernization and Development.”⁷

Comment 2

The draft audit report recommends that a line item specific to insurance proceeds be added to the Capital Fund Annual Plan, Form 50075.1.⁸ This form, as is recognized in the report, has a line item for “Total Non-[Capital Fund Program] Funds.” PIH would expect that this line would infrequently contain any specific value because of the way in which the Capital Fund grants are made. Specifically, Capital Fund grants are awarded on a PHA level to be spent on eligible activities at any PHA properties covered by an ACC and a Declaration of Trust. The Form 50075.1 captures grant activity by budget line item. To report non-grant funding at the grant level would not necessarily provide the information that PIH believes the OIG is seeking. This is not true, however, in the case of Capital Fund Emergency or Natural Disaster Grants. The approval letters for these grants expressly state that funds made available should be the net of any insurance proceeds provided to meet the condition for which the grant is made. In this case, the specificity of the nature of activities for which funds are made available makes it more plausible non-CFP funds should appear without over-complicating grant accounting.

Comment 3

Despite its belief that the internal controls are adequate to mitigate the risk identified by the OIG, PIH agrees that the public would be served by increased transparency in the receipt and use of insurance proceeds by PHAs. Furthermore, PIH, as a prudent investor in properties with insufficient resources to meet the extensive needs of the inventory, would benefit from more actively asserting its contractual rights under the ACC.

To accomplish that end, PIH agrees with Recommendation 1B, but suggests striking “in accordance with applicable requirements” because the implementation of this action may involve an alternative approach. This effort will likely result in changing the way the information is reported or monitored, though it is unclear at this point what may be the most appropriate

⁵ Office of Management and Budget, COMPLIANCE SUPPLEMENT TO CIRCULAR A-133: DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, 4-14.872-1 (March 2011) (available at http://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a133_compliance/2011/hud.pdf).

⁶ GREEN BOOK pg. 6.

⁷ Department of Housing and Urban Development Real Estate Assessment Center, FINANCIAL DATA SCHEDULE LINE DEFINITION GUIDE, pg. 12 (May 2012) (available on the REAC’s website at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/prodpha).

Insurance proceeds are expressly carved out of line 97200 on page 48. Line 10070 calls for netting insurance proceeds against capital losses in calculating the amount for this line item.

⁸ Draft Audit Report Recommendation 1A.

Comment 4

vehicle. PIH recommends amending Recommendation 1A to require more generally that PIH revise its information collection as necessary to effect Recommendation 1B. Finally, PIH agrees that Recommendation 1C is necessary to implement successfully the conclusions of the process required by Recommendation 1B, but suggests striking “that is currently being drafted.”

Comment 5

Comment 6

In conclusion, PIH disagrees with the draft audit report’s identification of a significant deficiency in internal controls. However, the Department believes that this represents an opportunity to enhance transparency in the Public Housing program. To accomplish this, PIH recommends amending Recommendation 1A to more generally require appropriate changes to information collections to effect its revised policies and procedures. It agrees with Recommendations 1B and 1C, suggesting only the limited revisions mentioned above.

OIG Evaluation of Auditee Comments

- Comment 1** We understand that FDS Line 112, Cash - Restricted - Modernization and Development “represents money in any form...that is only allowed to be expended for certain, specified modernization and development activities. The restriction on the use of the funds has been specified by the source of the monies, not by the PHA. Generally, this account includes proceeds from the sale of property that had been acquired with grant and development funds, insurance recoveries received in advance of contractor bills, or unspent bond proceeds and CFP drawdowns designated for future capital activities.” Since FASS-PH is designed to capture information at year end instead of on a transactional basis the OIG reviewed other potential FDS Lines where the insurance proceeds might have been reported. Again, although many of our sample agencies identified balances under these line items, there was insufficient detail in FASS-PH to confirm them to the insurance recovery amounts paid by the insurance provider.
- Comment 2** In general, we recommend PIH collect information from public housing agencies related to PHA insurance recoveries. The data collected would act as an additional control mechanism to assist in ensuring that agencies are following the applicable requirements. Additionally, the data may be used by PIH staff during their monitoring efforts.
- Comment 3** We disagree with editing out the text, as it would specifically put off PIH’s accountability for ensuring that agencies are not duplicating property loss repair costs and are crediting the applicable insurance recoveries to their Capital Fund programs, including Recovery Act programs. However, the OIG is open to discussing alternative approaches in audit resolution to address the matter.
- Comment 4** We amended recommendation 1A, per PIH’s request.
- Comment 5** We have removed the requested text from Recommendation 1C.
- Comment 6** We agree the matter is not a significant deficiency to the CFP program as a whole and have therefore removed the significant deficiency from the Internal Controls section of the report. However, the OIG still considers the finding to be a control weakness that increases the risk to the program. Consequently, recommendations to address the weakness are still in order.

Appendix B

CRITERIA

24 CFR (Code of Federal Regulations) 5.801, Uniform Financial Reporting Standards

(a) Applicability. This subpart H implements uniform financial reporting standards for...

Section (1) Public housing agencies (PHAs) receiving assistance under sections 5, 9, or 14 of the 1937 Act (42 U.S.C. 1437c, 1437g, and 1437 l).

(b) Submission of financial information. Entities (or individuals) to which this subpart is applicable must provide to HUD, on an annual basis, such financial information as required by HUD. This financial information must be:

Section (1) Uniform Financial Reporting Standards. Prepared in accordance with Generally Accepted Accounting Principles as further defined by HUD in supplementary guidance.

24 CFR 965.205, Qualified PHA-Owned Insurance Entity

(a) Contractual requirements for insurance coverage. The Annual Contributions Contract (ACC) between PHAs and the U.S. Department of Housing and Urban Development requires that PHAs maintain specified insurance coverage for property and casualty losses that would jeopardize the financial stability of the PHAs. The insurance coverage is required to be obtained under procedures that provide “for open and competitive bidding.” The HUD Appropriations Act for Fiscal Year 1992 provided that a PHA could purchase insurance coverage without regard to competitive selection procedures when it purchases it from a nonprofit insurance entity owned and controlled by PHAs approved by HUD in accordance with standards established by regulation.

2 CFR (Code of Federal Regulations) 225, Cost Principles For State, Local, and Indian Tribal Governments, Appendix A

(C) (4) (a) Applicable Credits. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

(D) (1) Composition of Costs; Total Cost. The total cost of Federal awards is comprised of allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

Statement No. 42 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

Paragraph 23. The provisions of this Statement need not be applied to immaterial items. *Appendix B, Paragraph 64.* Due to the nature of insurance recoveries, the Board considers it essential that users of the financial statements be aware when an insurance recovery has been reported, even if the transaction is not presented as a separate line item. Therefore, the Board believes that a disclosure of the amount and financial statement classification of insurance recoveries should be provided if that information is not already evident from the face of the financial statements.

HUD Handbook 1840.1, REV-3, Departmental Management Control Program, Chapter 1

Section 1-2. The Department will establish and maintain a cost-effective system of management controls to provide reasonable assurance that programs and activities are effectively and efficiently managed and to protect against fraud, waste, abuse, and mismanagement.

Section 1-3 (A). Management controls are policies and procedures adopted by managers to ensure that program objectives are efficiently and effectively accomplished within planned timeframes, within budgetary limitations and with the intended quality and quantity of output.

HUD Handbook 7485.3, Comprehensive Grant Program

Chapter 2, Section 2-20: Ineligible Costs, (A) Ineligible Physical Improvement Costs, (5). Duplication of costs for repair of a unit damaged by fire or natural disaster where costs are being reimbursed from insurance.

Notice PIH 2009-12 (HA)

Section V. Recovery Act Capital Fund Grant Distribution. By signing the ACC Amendment, the PHA is agreeing that capital and management activities will be carried out in accordance with all HUD regulations, including 24 CFR Parts 905, 941 and 968 and other requirements applicable to the Capital Fund Program, with the PHA's current Five Year Capital Fund Action Plan as well as the Recovery Act requirements.

Form HUD-53012A, Part A of a Consolidated Annual Contributions Contract Between Housing Authority and the United States of America

Section 13, (B). The HA shall, to the extent that insurance proceeds permit, promptly restore, reconstruct, and/or repair any damaged or destroyed property of a project, except with the written approval of HUD to the contrary.