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| Audit Report Number | 2012-CH-1001     |

TO: Shawn Sweet, Director of Public Housing Hub, 5DPH

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The Gallia Metropolitan Housing Authority, Bidwell, OH, Did Not Always Administer Its Grant in Accordance with Recovery Act and HUD Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Gallia Metropolitan Housing Authority's American Recovery and Reinvestment Act of 2009 Public Housing Capital Fund Stimulus (formula) grant. The audit was part of the activities in our fiscal year 2011 annual audit plan. We selected the Authority based upon our analysis of risk factors relating to the housing agencies in Region V's<sup>1</sup> jurisdiction and a request by the U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing. Our objective was to determine whether the Authority administered its grant in accordance with Recovery Act, HUD's, and its requirements.

### **What We Found**

The Authority did not administer its grant in accordance with Recovery Act, HUD's, and its requirements. Specifically, it (1) incorrectly stated in its solicitations for appliances both the make and model number of the appliances required instead of providing only a general description, (2) did not award a contract for 5 ranges to the lowest bidder, (3) purchased 143 ranges and 142

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<sup>1</sup> Region V includes the States of Indiana, Illinois, Ohio, Michigan, Minnesota, and Wisconsin.

refrigerators when its plan stated that it would purchase 140 of each, (4) replaced 13 refrigerators and 10 ranges that still had useful life, and (5) did not accurately report in FederalReporting.gov the number of jobs created and retained. The problems occurred because the Authority lacked adequate procedures and controls regarding the administration of its grant funds to ensure that expenditures and grant reporting met Recovery Act, HUD, and its requirements. As a result, it improperly used \$11,397 in formula grant funds contrary to program requirements, and its reporting of Recovery Act-funded activities on FederalReporting.gov was inaccurate.

We informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of minor deficiencies through a memorandum, dated January 5, 2012.

### **What We Recommend**

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to (1) reimburse \$11,397 from non-Federal funds to HUD for transmission to the U.S. Treasury for the inappropriate use of the funds cited in finding 1 and (2) implement adequate procedures to ensure that its procurement policies are followed.

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 our review results to the Director of HUD's Cleveland 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 January 9, 2012.

We asked the Authority's executive director to provide comments on our discussion draft audit report by January 9, 2012. The Authority's executive director provided written comments, dated January 9, 2012. The executive director generally disagreed with the report finding. 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 OBJECTIVE**

The Gallia Metropolitan Housing Authority was established in 1974 under section 3735.27 of the Ohio Revised Code. The Authority is governed by a seven-member board of commissioners with two members each appointed by the Gallia County Commissioners, Gallia County Common Pleas Court, and Gallipolis City Commissioners, and one member appointed by the Gallipolis city manager. The board appoints the executive director. The executive director has general supervision over the administration of the business and affairs of the Authority and is charged with the management of the Authority's housing programs and projects.

The Public Housing Capital Fund Stimulus (formula) Recovery Act Funded 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.

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 \$266,000.

The Recovery Act required public housing agencies to (1) obligate 100 percent of the funds within 1 year of the date on which funds became available to the agency for obligation, (2) expend 60 percent of the funds within 2 years, and (3) expend 100 percent of the funds within 3 years of the date on which funds became available to the agency. As of August 2010, the Authority had obligated and expended 100 percent of its formula grant funds.

Our objective was to determine whether the Authority followed Federal and its requirements regarding the administration of its Recovery Act Capital Fund grants. Specifically, we wanted to determine whether the Authority properly procured contracts related to the above-mentioned formula grant and appropriately used Federal funds for eligible expenditures.

## RESULTS OF AUDIT

### Finding 1: The Authority Did Not Always Administer Its Grant in Accordance with Federal and Its Requirements

The Authority lacked adequate procedures and controls regarding the administration of its grant funds to ensure that expenditures and grant reporting met Recovery Act, HUD's, and its requirements. Specifically, it (1) incorrectly stated in its solicitations for appliances both the make and model number of the appliances required instead of providing only a general description, (2) did not award a contract for 5 ranges to the lowest bidder, (3) purchased 143 ranges and 142 refrigerators when its plan stated that it would purchase 140 of each, (4) replaced 13 refrigerators and 10 ranges that still had useful life, and (5) did not accurately report in FederalReporting.gov the number of jobs created and retained. The problems occurred because the Authority lacked adequate procedures and controls regarding the administration of its grant funds to ensure that expenditures met Recovery Act, HUD's, and its requirements. As a result, it improperly used \$11,397 in formula grant funds contrary to program requirements and its reporting of Recovery Act-funded activities on FederalReporting.gov was inaccurate.

#### **The Authority Did Not Administer Its Grant Correctly**

The Authority did not ensure that the contracts for refrigerators and ranges were awarded to a supplier that provided the best overall value to the Authority. Federal regulations state that all procurement transactions should be conducted in a manner providing full and open competition, and specifying a brand name product is considered to be restrictive of competition. The Authority's procurement policy states that the Authority must provide for a procurement system that promotes competition in contracting and procures the most favorable prices available. The Authority stated in its solicitations for the appliances both the make and model number of the appliances required instead of providing a general description of the products needed. In its solicitation for refrigerators, it specified 135 units of a Hotpoint model number and 7 units of a General Electric model number. In its solicitation for ranges, it specified 135 units of a General Electric model number, 5 units of another General Electric model number, and 2 units of a Hotpoint model number.

The Authority's executive director said he knew that the make and model numbers listed in the solicitation were the appliances that met the Authority's specifications. However, he also knew that Federal procurement policy prohibited listing the specific make and model numbers in a solicitation. Therefore, after submitting the solicitation, he knew that he had made a mistake. HUD's regulations at 24 CFR (Code of Federal Regulation) 85.36(c)(1)(vi) state that specifying only a brand name

product instead of allowing an equal product to be offered is considered to be restrictive on competition. As a result of this restriction, HUD lacked assurance that the Authority effectively managed its grant.

The Authority did not award the contract for five Americans with Disabilities Act (ADA)-compliant ranges to the lowest bidder. The Authority's procurement policy states that it must provide for a procurement system of quality and integrity, which ensures that supplies and services are procured efficiently, effectively, and at the most favorable prices available. The Authority awarded the contract for 142 ranges to Sears Commercial One, the lowest bidder; however, it realized that the Sears Commercial One winning quote included specifications for five ADA-compliant ranges that were not self-cleaning, which did not meet ADA standards.

### **Formula Grant Funds Used to Purchase Unnecessary Appliances**

The Authority decided to purchase the five ranges from General Electric Company because it was already purchasing the refrigerators from the company and because Sears Commercial One could not meet General Electric Company's price.

However, the Authority did not go back to the original bids to determine which bid, excluding Sears Commercial One, was the lowest for the five ranges and it did not consider the bid from Menards. The executive director said it was an oversight that the Authority did not go back to the original bids to determine which bid, excluding Sears Commercial One, was the lowest bid and it should have. Menards' bid, at \$1,290, was the lowest bid and \$1,247 lower than General Electric Company's cost of \$2,537. By not considering Menard's bid, the Authority misused \$1,247 of its formula grant funds when it failed to comply with Federal and its requirements.

The Authority administers two public housing complexes that have a total of 140 units: Gallia Metro Estates, which has 100 units, and Rio Grande Estates with 40 units. One of the items it reported in its plan in [FederalReporting.gov](http://FederalReporting.gov) was that it would use Recovery Act funds to replace refrigerators and ranges in nearly all of its public housing units, on an as needed basis. The Authority also indicated that it planned to modernize administrative and community areas.

The Authority was required to provide complete and accurate information in [FederalReporting.gov](http://FederalReporting.gov). At a maximum, its plan would have permitted it to use formula grant funds for the purchase of a refrigerator and range for each of its public housing units, or 140 ranges and refrigerators. Contrary to its plan, the Authority used formula grant funds to purchase 143 ranges and 142 refrigerators. It replaced all 140 ranges and 140 refrigerators that were in its public housing units. However, 10 of the ranges and 13 refrigerators were replaced before the end of their useful life and not in accordance with the Authority's plan to replace appliances on an as

needed basis. According to HUD's Office of Public and Indian Housing Notice, PIH-2009-16, with proper preventative maintenance and routine repairs of minor components, refrigerators can be expected to perform for 6 to 10 years. The National Association of Home Builders' estimates the life spans of electric ranges and refrigerators to be 14 to 17 years. Using HUD's and the National Association of Home Builders estimates, we determined that a reasonable estimate for the life span of refrigerators and ranges was 8 years. While the Authority replaced the 13 refrigerators and 10 ranges contrary to its plan on FederalReporting.gov, it put the appliances into its inventory for future use.

While the Authority's plan stated that formula grant funds would be used to replace ranges and refrigerators in nearly all of its 140 public housing units, it purchased a range and refrigerator for its administrative office, which is also used as a community room and lunchroom. It also purchased a refrigerator for its maintenance shop. Rather than purchase the additional ranges and refrigerators with stimulus grant funds, the Authority could have used a range and two refrigerators that were already in its inventory for the Authority's administrative office and maintenance shop. Further, an additional ADA-compliant range was purchased to replace a range for a handicap-accessible unit, which required a cook top and wall oven. However, the Authority did not return the incorrectly purchased ADA-compliant range for credit.

The Authority stated that the quantity of appliances purchased with formula grant funds was more than accounted for on its Annual Statement/Performance and Evaluation Report, form HUD-50075.1, submitted to HUD. On this report, it estimated that it would purchase a total of 315 appliances, to include refrigerators, ranges, and range hoods, which was 30 more appliances than it actually purchased. The executive director said that these totals were only estimates and he did not know how the quantity of 315 was arrived at. As justification for purchasing a range and two refrigerators for the Authority's administrative office and maintenance shop, he said that the project description also included the modernization of administrative and community areas. As a result of its actions, the Authority misused \$1,863 (\$855 for two refrigerators + \$492 for two ranges + \$516 for one ADA-compliant range) of its formula grant funds when it failed to follow its plan for the use of formula grant funds.

The 13 refrigerators replaced with formula grant funds were between 5 years, 7 months and 1 year, 5 months old. The 10 ranges replaced with formula grant funds were between 3 years, 3 months and 7 months old. The Authority stated that the use of formula grant funds for the purchase of these appliances was acceptable because it did not actually replace these 23 appliances; instead, they were moved to its inventory. The Authority stated that an inventory of additional appliances had historically been maintained to prudently manage its public housing units. Additionally, these appliances were purchased at a cost which was significantly lower than if they had been purchased individually.

The expenditure of formula grant funds for the purchase of these 23 appliances was an ineligible expense because the Authority's plan stated that the appliances would be replaced on an as needed basis and these 23 appliances did not need to be replaced since they still had useful life. If the Authority's intention was to use formula grant funds to enhance its inventory of appliances, this intention could have been included in its plan. Since the Authority did not include this intention in its plan, it misused \$8,287 (\$5,557 for 13 refrigerators + \$2,214 for 9 ranges + \$516 for 1 ADA-compliant range) of its formula grant funds when it failed to follow its plan regarding the use of the funds.

### **Inaccurate Information Was Reported**

Contrary to Recovery Act reporting requirements, the Authority did not accurately report the number of jobs created and retained using its formula grant funds. Section 1512(c) of the Recovery Act requires recipients of Recovery Act funds to submit quarterly reports. These quarterly reports are submitted in FederalReporting.gov and become available to the public on the Recovery.gov Web site. Office of Management and Budget (OMB) Memorandum 10-08 requires recipients of Recovery Act funds to submit estimates of jobs created and jobs retained for each project or activity in their recipient reports. The Recovery Act reports submitted by the Authority starting with the third quarter of 2009 through the third quarter of 2010, its final report, stated that the total number of jobs created was two due to the retention of one full-time architect and one full-time administrative person.

The Authority could not provide documentation to show how it determined the number of jobs created or that the number of jobs reported was correct. The Authority's executive director stated that the Authority should have reported that zero jobs were created. The mistake was made because he did not fully understand the reporting requirements at the time he submitted the reports.

The public did not have access to accurate information regarding the number of jobs created and retained with formula grant funds. As a result, the Authority's use of formula grant funds was not transparent.

### **Conclusion**

The Authority did not administer its grant in accordance with Federal and its requirements. Specifically, it (1) incorrectly stated in its solicitations for appliances both the make and model number of the appliances required instead of providing only a general description, (2) did not award a contract for 5 ranges to the lowest bidder, (3) purchased 143 ranges and 142 refrigerators when its plan stated that it would purchase 140 of each, (4) replaced 13 refrigerators and 10 ranges that still had useful life, and (5) did not accurately report in



FederalReporting.gov the number of jobs created and retained. The problems occurred because the Authority lacked adequate procedures and controls regarding the administration of its grant funds to ensure that expenditures met Recovery Act, HUD's, and its requirements. As a result, it improperly used \$11,397 in formula grant funds contrary to program requirements and its reporting of Recovery Act-funded activities on FederalReporting.gov was inaccurate.

## **Recommendations**

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

- 1A. Reimburse \$11,397 to HUD from non-Federal funds for transmission to the U.S. Treasury for the inappropriate use of the funds cited in this finding.
- 1B. Implement adequate procedures and controls to ensure that its procurement policies are followed.

## SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed

- Applicable laws and regulations; HUD's program requirements at 24 CFR Parts 50, 58, 85, 135, and 968; HUD Office of Public and Indian Housing notices; HUD Handbook 7460.8, REV-2; the Recovery Act, OMB Circular A-87 and Memorandum 10-08; and The Davis-Bacon Act, as amended (revised April 2009).
- The Authority's accounting records, bank statements, contract files, policies and procedures, board meeting minutes for March 2009 through July 2011, organization chart, program annual contributions contracts with HUD, and 5-year annual plans.
- The Authority's Recovery Act reports submitted to FederalReporting.gov and HUD's Recovery Act Management and Performance System.
- HUD's monitoring report for the Authority's Recovery Act funds and projects, dated December 15, 2011, and the independent auditors' reports on the Authority for fiscal years 2008, 2009, and 2010.
- HUD's files for the Authority.

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

We reviewed the Authority's \$266,000 Recovery Act grant. We reviewed 100 percent of the supporting hardcopy documentation, including bank statements and invoices, for all expenditures.

We performed our onsite audit work at the Authority's office at 381 Buck Ridge Road, Number 14, Bidwell, OH, between August 30 and October 27, 2011. The audit covered the period March 18, 2009, through August 31, 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 objective:

- 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 its assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

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

### **Significant Deficiency**

Based on our review, we believe that the following item is a significant deficiency:

- The Authority lacked adequate policies and procedures to ensure that (1) contracts awarded provided the best overall value to the Authority, (2) it followed its own plan, and (3) it accurately reported Recovery Act-funded jobs in FederalReporting.gov (see finding).

### **Separate Communication of Minor Deficiencies**

We informed the Authority's executive director and the Director of HUD's Cleveland Office of Public Housing of minor deficiencies through a memorandum, dated January 5, 2012.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

| Recommendation<br>number | Ineligible 1/   |
|--------------------------|-----------------|
| 1A                       | <u>\$11,397</u> |
| Total                    | <u>\$11,397</u> |

- 1/ Ineligible costs are those 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

GALLIA METROPOLITAN HOUSING AUTHORITY DISCUSSION DRAFT AUDIT REPORT COMMENTS  
January 9, 2012

The following comments respond to each of the five sections of Finding 1, as stated in the discussion draft audit report sent to Gallia Metropolitan Housing Authority on December 16, 2011.

- (1) “[GMHA] incorrectly stated in its solicitations for appliances both the make and model number of the appliances required instead of providing only a general description.”

Management Response:

**Agree.** It should also be noted, though, that GMHA did allow quotes on comparable products for both types of appliances. In fact, the standard ranges purchased were a Kenmore model, not the GE model named in the solicitation. Also, the 20” ranges purchased were an Estate model, not the Hotpoint model named in the solicitation.

Nevertheless, stating makes and models in the solicitations was an oversight. Appropriate steps will be taken to ensure that it does not happen again.

- (2) “[GMHA] did not award a contract for 5 ranges to the lowest bidder.”

Management Response:

**Agree.**

- (3) “[GMHA] purchased 143 ranges and 142 refrigerators when its plan stated that it would purchase 140 of each.”

Management Response:

**Disagree.** The term “plan” is used in the discussion draft audit report to refer to the “Project Description” field contained on the FederalReporting.gov form. GMHA *did* follow the plan contained in the HUD-50075.1 form. As previously stated, the form HUD-50075.1 has not been given appropriate weight in the OIG’s determination of GMHA’s plans for the Capital Fund Recovery Grant. The HUD-50075.1 form includes the purchase of 315 appliances and is approved by the HUD Field Office. Traditionally, it is the primary document for determining what expenditures are allowable under a particular capital fund grant.

The discussion draft audit report states (emphasis added):

“On [the form HUD-50075.1], [GMHA] listed a total of 315 appliances as having been purchased, which was 30 more appliances than it actually purchased.”

**Comment 1**

**Comment 2**

**Comment 1**

The HUD-50075.1 that the OIG is referring to does not contain any statement of the number of appliances purchased. It is a budget estimate. Because GMHA could not provide a detailed breakdown of how the quantity of 315 appliances was reached, OIG has considered the number to be nonsensical and has opted to use a different report. The budget states that the 315 appliances included ranges, range hoods, and refrigerators (range hoods were not included in the final purchase). The quantity of appliances purchased by GMHA was approved by the HUD Field Office on the HUD-50075.1.

## Ref to OIG Evaluation

## Auditee Comments

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In response to the OIG comment that GMHA did not include the appliances for the Administrative Offices or Maintenance Shops on Federalreporting.gov, two comments are given. First, GMHA included the modernization of administrative and community areas on Federalreporting.gov. Second, the clarity of the instructions pertaining to the "Project Description" field on FederalReporting.gov should be questioned. Federalreporting.gov offers the following description of the field in its instructions:

"Quarterly Activities/Project Description

Grants and Loans: Description of the overall purpose and expected results of the award and first-tier sub award(s) including significant deliverables. If funding multiple projects (block grants) this may be stated in broad terms.

Format: 2000 characters or less."

As GMHA funded multiple projects with the ARRA funds, stating this information in broad terms is acceptable. GMHA not only met the reporting requirement, but exceeded it. The significant deliverables from the award are all included in the project description, mostly with a relatively high level of detail (e.g., description of specific work items like "base trim" and "shower fixtures").

The GAO (GAO-10-966 <http://www.gao.gov/new.items/d10966.pdf>) conducted a study which found HUD guidance on Recovery Act reporting to be broad and nonspecific. Guidance instructed housing authorities to summarize projects and state them in broad terms.

Two excerpts from the study are provided below.

**Excerpt 1 (from first page of Highlights):**

The Recovery Act requires recipients to report specific information about funded projects and activities, including the total amount of Recovery Act funds received, associated obligations and expenditures, and a detailed list of the projects and activities funded. For each project or activity, the detailed list must include its name, description, and completion status. To facilitate implementation of the Recovery Act, OMB created governmentwide guidance, including memorandums and a data dictionary. While some OMB guidance reiterates that recipients list all projects and activities funded, its implementing instructions advise recipients to summarize. OMB officials have stated that its broad guidance could not address unique program characteristics effectively and anticipated that agencies would provide more specific guidance. HUD issued limited program-specific guidance, which largely restated the requirements in OMB's data dictionary. The reporting guidance generally advised recipients to summarize or use standard, suggested language. OMB and HUD guidance also did not consistently clarify key terms, such as "project" or "primary place of performance." Some grant recipients followed OMB and HUD guidance, which instructed them to report broad, summary information rather than information on specific projects and activities, as specified in the act. Because the reporting guidance provided did not advise recipients to report details for each project or activity funded or clarify key terms, recipients may have interpreted the guidance differently.

**Excerpt 2 (from first page of Highlights):**

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The limited degree to which grant descriptions met the criteria on specific projects and activities likely is partly due to reporting guidance that does not consistently reflect Recovery Act requirements and does not provide clear instructions on what constitutes a “project” or how to identify “primary place of performance.”

**(4) “[GMHA] replaced 13 refrigerators and 10 ranges that still had remaining useful life.”**

Management Response:

**Disagree.**

This response addresses issues raised regarding **first**, the retainage of 23 appliances (13 refrigerators and 10 ranges) that were less than eight years old at the time of Gallia Metropolitan Housing Authority’s (GMHA) ARRA-funded appliances purchase and **second**, the ARRA-funded purchase of an ADA-accessible range that was not installed at the time of purchase.

**1. Retainage of 23 appliances (13 refrigerators and 10 ranges) that were less than eight years old at the time of Gallia Metropolitan Housing Authority’s (GMHA) ARRA-funded appliances purchase.**

Prior to purchasing appliances with the ARRA grant, GMHA had an insufficient quantity of both ranges and refrigerators. GMHA requires 141 ranges, 143 refrigerators, and 1 cooktop/wall oven combo to be *installed* at any given time at its Gallia Metro Estates (GME) and Rio Grande Estates (RGE) properties (see **Exhibit 1**). However, the quantity of appliances GMHA needs *on hand* for prudent management is greater than the quantity required to be *installed*.

**Exhibit 1: Installed Units Required at GME and RGE**

| Location  | Number of Installed Units Required at Location |                    |               |
|---|--|--------------------|---------------|
|   | Ranges   | Cooktop/Wall Oven* | Refrigerators |
| Gallia Metro Estates (GME) Units                    | 100  | 1                  | 100           |
| Rio Grande Estates (RGE) Units                      | 40   | 0                  | 40            |
| GHMA Administrative Office Community Room/Lunchroom | 1  | 0                  | 1             |
| GME Maintenance Shop                                | 0  | 0                  | 1             |
| RGE Maintenance Shop                                | 0  | 0                  | 1             |
| <b>Total</b>  | <b>141</b>                                     | <b>1</b>           | <b>143</b>    |

\*A cooktop and wall oven are counted as one unit, as they are the equivalent of a single range unit

As demonstrated in **Exhibit 2**, prior to the ARRA appliance procurement, GMHA had only enough of each type of appliance to meet the quantity required to be installed at GME and RGE. Historically, an inventory of additional appliances has been maintained at GMHA to allow the agency to prudently manage its public housing properties. Additional appliances



**Ref to OIG Evaluation**

**Auditee Comments**

ensure that GMHA has the ability to quickly and economically replace failed appliances and to more quickly make vacant units available for leasing by new families during periods of high turnover. Over time, this inventory of additional appliances has been depleted.

Replenishing this inventory as a part of the appliance procurement of the ARRA grant is fiscally responsible and improves the efficiency of GMHA management. The units were purchased at a cost which is significantly lower than what the agency would pay if it were to purchase them individually.

**Comment 3**

HUD OIG has suggested that GMHA misspent ARRA funds because it replaced 13 refrigerators and 10 ranges that were less than 8 years old and still functional. This theory is flawed for two reasons. First, the assumption that each individual appliance is bound to a specific location (e.g., Gallia Metro Estates Apt. 6) for the duration of its lifespan is incorrect. GMHA manages its appliance inventory on an aggregated basis. Management examines the number of units needed for installation and the number of units needed for inventory to determine the total number of units needed on hand to operate GMHA properties. Second, GMHA did not “replace” the 13 refrigerators and 10 ranges in question. The housing authority brought its total number of appliances on hand up to a reasonable quantity by replacing both obsolete appliances and the appliances that, over time, had been used from inventory but not replaced.

**Exhibit 2: Total on Hand at Gallia Metro Estates (GME) and Rio Grande Estates (RGE)**

| Point in Time                  | Total Number on Hand |                    |               |
|--------------------------------|----------------------|--------------------|---------------|
|                                | Ranges               | Cooktop/Wall Oven* | Refrigerators |
| Prior to ARRA (April 29, 2010) | 141                  | 1                  | 143           |
| Present (Nov. 2, 2011)         | 149                  | 1                  | 154           |

\*A cooktop and wall oven are counted as one unit, as they are the equivalent of a single range unit

**Comment 4**

GMHA does not, by any means, have an excessive number of additional appliances on hand. Beyond what appliances it requires to be installed (see **Exhibit 1**), the housing authority has 8 ranges and 11 refrigerators. GMHA’s rationale for maintaining this inventory is quite reasonable.

GMHA’s maintenance department is small; if the only item keeping a vacant unit from being rented is a refrigerator and a range that need several hours of heavy cleaning and/or repair—and there are more urgent maintenance needs—placing appliances from inventory in the vacant unit and getting it rented is good management. The dirty or broken appliance can be attended to once higher priority work orders are completed.

Furthermore, an incident taking place on August 15, 2010 provides additional merit to the value of having an appliance inventory. On August 15, a lightning strike occurred at Gallia Metro Estates which disabled 12 refrigerators instantaneously. A circuit board in each of the appliances was damaged. The parts needed to repair the refrigerator were not immediately available. Having an inventory of refrigerators allowed GMHA to prevent the spoiling of

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tenants' food, quickly respond to an emergency, and avoid a costly situation such as renting or purchasing replacement refrigerators.

**2. ARRA-funded purchase of an ADA-accessible range that was not installed at the time of purchase.**

**Comment 3**

HUD OIG has suggested that GMHA misspent ARRA funds because it purchased an ADA-accessible range that was not installed in a unit. GMHA did order one ADA-accessible range in excess of what it intended. The housing authority mistakenly purchased an ADA-accessible range for a handicap-accessible unit which required a cooktop and wall oven. Upon discovery of the error, the additional range was placed into GMHA inventory. The authority was still below the quantity of units budgeted on its HUD-500751.1 form.

**Comment 5**

Although the purchase was the result of an administrative error, it should be noted that the ADA-accessible range in GMHA's inventory is the only one of its kind. If a range in the home of one of our disabled residents was to become non-functional, the additional unit would allow GMHA to quickly provide the tenant with a working unit that was procured at a cost much lower than is available under individual purchase. Once again, the point must be made that this is not an excessive or unreasonable inventory.

**(5) "[GMHA] did not accurately report in FederalReporting.gov the number of jobs created and retained."**

Management Response:

Agree.

The following comments respond to both recommendations contained in the discussion draft sent to Gallia Metropolitan Housing Authority on December 16, 2011.

**(1A) Reimburse \$11,397 to HUD from non-Federal funds for transmission to the U.S. Treasury for the inappropriate use of funds cited in this finding.**

**Comment 3**

Management Response:

**Disagree.** GMHA should not be required to reimburse any funds related to sections 3 and 4 of Finding 1. For reasons already discussed, these findings are inaccurate.

**(1B) Implement adequate procedures and controls to ensure that its procurement policies are followed.**

Management Response:

Agree.

## OIG Evaluation of Auditee Comments

- Comment 1** We agree that we did not give much weight to the Authority’s form HUD-50075.1 because the information regarding the appliance purchases was unreliable. The form was not specific as to the number of specific appliances that were to be purchased. It did only list that the Authority estimated it would purchase 315 appliances to include refrigerators, ranges, and range hoods. As required by Chapter 7.09 of generally accepted government auditing standards, we did review the Authority’s reporting to FederalReporting.gov and HUD’s Recovery Act Management and Performance System (RAMPS) as part of the scope of our audit (see page 10). In both of these reports, it stated that appliances would be replaced in nearly all of its 140 public housing units, on an as needed basis. Therefore, the Authority was only going to replace a maximum of 280 appliances, two appliances for each unit, less, as per stated to be replaced on an as needed basis, any appliance that had a remaining useful life.
- Comment 2** The report was revised to reflect that the 315 appliances was only an estimate.
- Comment 3** We disagree with the Authority’s rationale that it did not use Recovery Act funds to replace 13 refrigerators and 10 ranges that still had useful lives. The Authority acknowledges that it brought its total number of appliances on hand (inventory) up to a reasonable quantity. Regardless of whether or not it placed new or the 23 used appliances in inventory, the Authority still used its Recovery Act funds purchase to increase its total number of appliances on hand at the same time removing appliances with remaining useful lives from service. HUD’s Notice PIH 2009-12 states that under section 9 of the 1937 Act, an authority no longer has the statutory authority to accumulate any Capital Fund grants in a replacement reserve. The Authority’s purchase of excess appliances served the same purpose as putting the equivalent amount of Recovery Act funds used to purchase the 23 excess appliances in its replacement reserve for future use.
- Comment 4** We do not dispute the Authority’s rationale for maintaining its appliance inventory, only the manner of how it established its inventory.
- Comment 5** While the Authority maintains it was still below the quantity of units budgeted on its form HUD-50075.1, it was 23 appliances more than it needed to replace as the Authority reported to FederalReporting.gov and HUD’s Recovery Act Management and Performance System (RAMPS). Section 1512(c) of the Recovery Act required recipients of funds to comply with the transparency and accountability requirements of the Recovery Act. As previously stated, the Authority reported that it would replace appliances on an as needed basis.

## Appendix C

### FEDERAL AND AUTHORITY REQUIREMENTS

The Recovery Act, Section 1605, states that public housing agencies must obligate 100 percent of the funds within 1 year of the date on which funds become available to the agency for obligation, must expend at least 60 percent of funds within 2 years of the date on which funds become available to the agency for obligation, and must expend 100 percent of the funds within 3 years of such date.

Section 1512(c) of the Recovery Act requires recipients of funds to comply with the transparency and accountability requirements of the Recovery Act. Recipients of funds are required to make quarterly reports<sup>3</sup> on the Internet (FederalReporting.gov). that not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency must submit a report to that agency that contains a detailed list of all projects or activities for which recovery funds were expended or obligated, including (1) the name of the project or activity; (2) a description of the project or activity; (3) an evaluation of the completion status of the project or activity; (4) an estimate of the number of jobs created and the number of jobs retained by the project or activity.

OMB Memorandum 09-21, 4.2, states that the prime recipient of Recovery Act funds (1) owns recipient data and sub-recipient data; (2) initiates appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner; (3) implements internal control measures as appropriate to ensure accurate and complete information; and (4) performs data quality reviews for material omissions or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues.

OMB Memorandum 10-08, part 2, 5.1, 2, requires recipients of Recovery Act funds to submit estimates of jobs created and jobs retained for each project or activity in their recipient reports.

24 CFR 85.36(c) states that (1) all procurement transactions will be conducted in a manner providing full and open competition. Some situations considered to be restrictive of competition include but are not limited to (vi) specifying only a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement.

Public and Indian Housing (PIH) Notice 2009-12 states that under section 9 of the 1937 Act, public housing authorities no longer have the statutory authority to accumulate ANY Capital Fund grants in a replacement reserve. In fiscal year 2008, no annual statements for this fiscal year should have been approved with a budget that included a replacement reserve.

Section 110 of the Authority's consolidated annual contributions contract with HUD, dated February 2, 1996, states the local authority must not award any construction or equipment contract to other than the lowest responsible bidder.

The general provisions of the Authority's procurement policy states that the Authority must (1) provide for a procurement system of quality and integrity; (2) provide for the fair and equitable treatment of all persons or firms involved in purchasing by the Authority; (3) ensure that supplies and services (including construction) are procured efficiently, effectively, and at the most favorable prices available to the Authority; (4) promote competition in contracting; (5) and ensure that the Authority purchasing actions fully comply with applicable Federal standards, HUD regulations, and State and local laws.