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Audit Report Number	2012-FW-1003
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TO: Johnny Wooley, Director, Office of Public Housing, 6FPH

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

SUBJECT: The Housing Authority of the City of Little Rock, AR, Generally Complied With Recovery Act Funding Requirements

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of Little Rock's American Recovery and Reinvestment Act of 2009 funding. The Authority received more than \$6.5 million in Recovery Act funds through three grants: one formula and two competitive. We selected the Authority based upon our risk assessment and subsequent discussion with the U. S. Department of Housing and Urban Development (HUD). Our objectives were to determine whether the Authority (1) obligated and expended its Recovery Act funding in accordance with HUD rules and regulations and (2) followed Recovery Act reporting requirements.

### **What We Found**

The Authority generally complied with Recovery Act requirements. However, it did not always follow the Buy American provision or reporting requirements. Specifically, the Authority purchased \$31,725 in products manufactured and assembled outside the United States for Recovery Act-funded projects. Also, for one grant, the Authority did not accurately report the number of jobs created.

## **What We Recommend**

We recommend the Arkansas Director of Public Housing require the Authority to repay \$31,725 from non-Federal funds that was misspent on products manufactured and assembled outside the United States. Further, the Authority should implement controls to ensure it complies with the Buy American provision requirements. Also, the Authority should correct the number of jobs created in its next quarterly report.

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

## **Auditee's Response**

We provided a discussion draft to the Authority on November 1, 2011. We held an exit conference on November 10, 2011. The Authority provided its response on November 16, 2011. The Authority generally agreed with the findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

## TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding : The Authority Generally Administered Its Recovery Act Funding in Compliance With Requirements	5
Scope and Methodology	8
Internal Controls	10
Appendixes	
A. Schedule of Questioned Costs	11
B. Auditee Comments and OIG's Evaluation	12

## BACKGROUND AND OBJECTIVES

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The Housing Authority of the City of Little Rock was chartered in 1937. A five-member board of commissioners governs the Authority. The Authority provides housing through traditional public housing, mixed finance sites, and housing choice vouchers.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 into law.<sup>1</sup> The Recovery Act provided \$4 billion for public housing agencies to carry out capital and management activities, including modernization and development of public housing. It allocated \$3 billion for formula grants<sup>2</sup> and \$1 billion for competitive grants.<sup>3</sup> 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.

The U. S. Department of Housing and Urban Development (HUD) granted more than \$6.5 million to the Authority for one Recovery Act Public Housing Capital Fund formula grant and two competition grants.<sup>4</sup> The following table shows the statutory deadlines for each grant.

**Table 1. Statutory deadline for the Authority’s grants**

Grant	Date grant available	Obligation deadline	60 percent expenditure deadline	100 percent expenditure deadline
<b>Formula grant</b>	March 18, 2009	March 17, 2010	March 17, 2011	March 17, 2012
<b>Competitive grant, category 4, option 1</b>	September 23, 2009	September 22, 2010	September 22, 2011	September 22, 2012
<b>Competitive grant, category 4, option 2</b>	September 24, 2009	September 23, 2010	September 23, 2011	September 23, 2012

HUD required the Authority to use its Recovery Act grants on eligible activities already identified in either its annual statement or 5-year action plan. The HUD-approved plans set forth all of the Authority’s physical and management improvement needs for its public housing developments and must demonstrate long-term physical and social viability of proposed projects, including cost reasonableness. If the Authority decided to undertake work items not in its approved plans, HUD required it to amend its approved plans.

Our audit objectives were to determine whether the Authority (1) obligated and expended its Recovery Act funding in accordance with HUD rules and regulations and (2) followed Recovery Act reporting requirements.

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<sup>1</sup> Public Law 111-5

<sup>2</sup> Catalog of Federal Domestic Assistance number 14.885

<sup>3</sup> Catalog of Federal Domestic Assistance number 14.884

<sup>4</sup> The Authority received \$2,630,644 under its formula grant; \$2,251,731 in competitive grant, category 4, option 1; and \$1,664,976 in competitive grant, category 4, option 2.

## RESULTS OF AUDIT

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### Finding: The Authority Generally Administered Its Recovery Act Funding in Compliance With Requirements

The Authority generally complied with the Recovery Act for its three grants.<sup>5</sup> It obligated and expended its Recovery Act funds for its Capital Fund activities within the required deadlines. However, it did not always follow the Buy American provision of the Recovery Act. It lacked adequate controls to ensure it purchased American-made products. As a result, the Authority misspent at least \$31,725 for products made outside the United States. It also underreported the number of jobs created for one of its competitive grants in the second quarter of 2011.

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#### **The Authority Obligated and Expended Its Recovery Act Funds Within Deadlines**

The Authority obligated its Recovery Act funds in accordance with the Recovery Act and Federal requirements. It planned and selected activities from its annual statement and 5-year action plan. In addition, it obligated 100 percent of its funding before the Recovery Act deadlines. The Authority supported its expenditures with appropriate vouchers, checks, and invoices. As of June 22, 2011, it had expended 100 percent of the Recovery Act formula grant, 67 percent of the Recovery Act competitive grant (category 4, option 1), and more than 99 percent of the Recovery Act competitive grant (category 4, option 2). The Authority should meet the expenditure deadlines.<sup>6</sup>

#### **The Authority Did Not Always Follow Buy American Requirements**

The Authority did not always ensure that it purchased American-made products.<sup>7</sup> Specifically, it bought floor tiles, washer-dryer combinations, and refrigerators manufactured and assembled outside the United States. The Authority did not have adequate controls in place to ensure it purchased American-made products. While the Authority was responsible for following the Buy American provision, it relied on its contracted architect to select the products for its Recovery Act-

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<sup>5</sup> The purposes of the three grants were (1) construction and rehabilitation of public housing units (formula grant), (2) construction of green communities (competitive grant, category 4, option 1), and (3) moderate rehabilitation and creation of green communities (competitive grant, category 4, option 2).

<sup>6</sup> See table 1 for the dates.

<sup>7</sup> Recovery Act, Title XVI of Subtitle D, Section 1605, required the Authority to use funds appropriated by the Act for projects in which all of the iron, steel, and manufactured goods used in the project were produced in the United States.

funded projects. The Authority's contracted architect relied on the location of the company instead of where the company manufactured and assembled the products. Moreover, the architect believed replaceable items, such as washers, dryers, and refrigerators, did not have to meet the Buy American provision. As a result, the Authority misspent at least \$31,725<sup>8</sup> for products manufactured and assembled outside the United States for Recovery Act-funded activities. Due to the lack of controls, the Authority could not assure it purchased American-made products.

### **The Authority Did Not Accurately Report the Number of Jobs Created**

The Authority did not always accurately report its Recovery Act activities as required.<sup>9</sup> For the reporting period ending June 30, 2011, the Authority underreported the number of jobs created at 13.31 jobs for the Recovery Act competitive grant (category 4, option 1). The Authority inadvertently excluded job hours in calculating the number of jobs created for the project. As a result, it underreported the number of jobs created by 2.04 jobs. The Authority should correct this error in its next quarterly report.

### **Conclusion**

The Authority generally complied with the Recovery Act for its three grants. However, it did not always meet the Buy American requirement and inadvertently underreported the number of jobs for its Recovery Act activities. As a result, the Authority incurred at least \$31,725 in ineligible costs.

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<sup>8</sup> We computed the amount by adding the cost of tiles (\$1,625), the cost of refrigerators (\$9,147), and the cost of washers and dryers (\$20,953) for a total amount of \$31,725.

<sup>9</sup> Recovery Act, Title XII of Subtitle A, Section 1512, required the Authority to submit quarterly reports showing a detailed list of all projects for which it had expended Recovery Act funds, including an assessment of the number of jobs created and retained by the project.

## Recommendations

We recommend the Arkansas Director of Public Housing require the Authority to

- 1A. Repay from non-Federal funds \$31,725 that was misspent on products manufactured and assembled outside the United States.
- 1B. Implement controls to ensure it complies with the Buy American provision requirements including retaining supporting documentation to ensure products used in its Recovery Act-funded activities were made in the United States.
- 1C. Correct the number of jobs created in its next quarterly report.

## SCOPE AND METHODOLOGY

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We conducted the audit at the Authority’s office located in Little Rock, AR, and our office in Oklahoma City, OK, from June through October 2011. Our audit scope was March 2009 through May 2011. We expanded our scope to June 30, 2011, for reporting activities.

To accomplish our objectives, we performed the following related to the Authority’s Recovery Act grant funds:

- Reviewed relevant laws, regulations, and HUD guidance;
- Reviewed the Authority’s policies and procedures;
- Reviewed and analyzed the Authority’s Recovery Act grant agreements, annual statement, and 5-year action plan;
- Reviewed 100 percent of the Authority’s Recovery Act contracts to ensure the Authority met its obligation requirements;
- Reviewed six Recovery Act contracts to ensure the Authority met procurement requirements (table 2);
- Reviewed nine Capital Fund Recovery Act grant vouchers (for 2009, 2010, and 2011) listed under the Line of Credit Control System (table 3);
- Reviewed the Authority’s Recovery Act reporting for the second quarter of 2011;
- Interviewed HUD staff, the Authority’s staff, the Authority’s contracted architect, and a contractor’s project manager; and
- Conducted site visits<sup>10</sup> and photographed the Recovery Act projects in Little Rock, AR.

Grant type	Total contracts <sup>11</sup>	Selected contracts	Amount
<b>Formula grant</b>	17	2 <sup>12</sup>	\$1,670,600
<b>Competitive grant (category 4, option 1)</b>	3	2 <sup>13</sup>	2,653,624
<b>Competitive grant (category 4, option 2)</b>	4	2 <sup>14</sup>	2,055,000
<b>Totals</b>	24	6	\$6,379,224 <sup>15</sup>

<sup>10</sup> We selected the sites based on the selected contracts.

<sup>11</sup> The Authority’s Recovery Act contracts identified as of June 21, 2011

<sup>12</sup> We selected the highest and third highest contract amounts. We selected the third highest amount instead of the second highest amount to avoid selecting the same vendor twice.

<sup>13</sup> We selected the two highest contract amounts.

<sup>14</sup> We selected the highest dollar contract and a contract with a “per task” basis contract amount.

<sup>15</sup> The sample totaled \$6,379,224 and was 77.9 percent of the \$8,188,998 total contract amounts.



<b>Table 3. Authority's Recovery Act expenditures</b>			
<b>Grant type</b>	Total vouchers <sup>16</sup>	Selected vouchers <sup>17</sup>	Amount
<b>Formula grant</b>	47	4 <sup>18</sup>	\$600,794
<b>Competitive grant (category 4, option 1)</b>	11	2 <sup>19</sup>	607,420
<b>Competitive grant (category 4, option 2)</b>	10	3 <sup>20</sup>	932,915
<b>Totals</b>	68	9	\$2,141,128 <sup>21</sup>

We did not project the results of our review.

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.

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<sup>16</sup> The Authority's vouchers identified as of June 22, 2011.

<sup>17</sup> We selected the expenditures from the selected contracts.

<sup>18</sup> Two of the four vouchers were the largest and second largest voucher combination in 2010. The remaining two vouchers included the largest voucher combination in 2010 and 2011.

<sup>19</sup> The largest voucher combination in 2010 and 2011.

<sup>20</sup> The largest voucher combination in 2010 and 2011 and one voucher with the selected contractors.

<sup>21</sup> The sample totaled \$2,141,128 and was approximately 37 percent of the \$5,792,427 total voucher amounts.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Policies and procedures that the Authority's management implemented to reasonably ensure that its program met its objectives.
- Procurement policies and procedures established and followed by the Authority.
- Policies and procedures that the Authority's management implemented to reasonably ensure that its resource use was consistent with laws and regulations and that its resources were safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A deficiency in internal controls 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 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.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible <u>1/</u>
1A	\$31,725

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

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### Ref to OIG Evaluation

### Auditee Comments



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*Shelly Ehenger, Executive Director*

November 16, 2011

Mr. Gerald R. Kirkland  
Regional Inspector General for Audit  
U. S. Department of Housing and Urban Development  
Region VI, Office of Inspector General  
819 Taylor Street, Suite 13A09  
Fort Worth, Texas 76102

**RE: Audit Report Number: 2012-FW-100X**

Dear Mr. Kirkland:

The Little Rock Housing Authority respectfully submits this correspondence in response to the above referenced matter. Our agency is pleased to partner with the U. S. Department of Housing and Urban Development in our combined mission to create strong, sustainable, inclusive communities and quality affordable homes for all.

In accordance with the Annual Contributions Contract (ACC), our agency is committed to abiding by the letter and as importantly, the spirit, of regulations, notices and procedures of the Department.

We are also extremely proud of the excellent working relationship we have with the Arkansas Field Office Public Housing team. They have provided the leadership and guidance necessary for the accomplishments of our quasi-governmental entity.

The entire LRHA staff worked diligently to secure and utilize the American Recovery and Reinvestment Act (ARRA) funding. Both the formula and competitive grants awarded to our agency were demonstrably beneficial to the

citizenry of Little Rock. Regrettably, the newly instituted, Buy American Requirement was not always properly implemented. For that we take full responsibility and agree to the single finding in the audit report. We provide with this our proposed plan to address the finding.

**Response to Specific Recommendations:**

- Comment 1**
- 1A. *The Authority will repay to the Capital Fund Program from non-federal funds the \$31,725. The PHA will work with the field office to have this matter resolved by 12/31/2011.*
  - 1B. *The PHA will develop and implement additional internal controls related to the Buy American provision of the ARRA statute.*
- Comment 2**
- 1C. *With the most recent ARRA reporting period (October 2011), the Authority corrected the number of jobs created to reflect the 2.04 jobs noted in the report. Documentation and a certifying statement of the corrective action taken will be submitted to the FO.*

The Authority takes pride in the proper awarding of **24** ARRA related contracts totaling more than **\$7,000,000, in an 18 month timeframe**. These funds resulted in the new construction of green affordable housing for seniors, retrofitting for increased energy efficiency for a 168 unit high-rise apartment community, and numerous other capital projects that will improve the quality of life for affordable housing program participants.

We were able to keep small businesses open and afloat while the economy steadied itself. We were able to demonstrate to the general public that the government was doing all things possible to meet the community housing needs during a very difficult period for our country.

This was all accomplished with limited additional staff and minimal overhead expense. The positive result of the funds will be part of the positive paradigm shift of the agency for decades.

Thank you for affirming that LRHA is on the right path to building a brighter future for all!

Respectfully Submitted,



Shelly Ehenger  
Executive Director

cc: *LRHA Board of Commissioners  
Arkansas Field Office PIH*



*Legacy Homes at Granite Mountain  
Senior Housing  
ARRA Funded Project*



*Park Central Apartment Homes in the Historic Central High Neighborhood.  
Partially funded ARRA Construction Project  
Building Communities. Building Lives.*

### **OIG Evaluation of Auditee Comments**

**Comment 1** We appreciate the Authority's actions toward addressing the recommendations and its willingness to develop and implement additional controls related to the Buy American provision of the Recovery Act.

**Comment 2:** We appreciate the Authority taking the necessary steps to correct the number of jobs reported. HUD will need to confirm that the number is accurately reported.