



Issue Date	December 21, 2011
Audit Report Number	2012-SE-1002

TO: Joy McCray, Director, Portland Office of Public Housing, OEPH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, OAGA

SUBJECT: The Vancouver, WA, Housing Authority Did Not Always Manage or Report on Recovery Act Funds in Accordance With Requirements

## **HIGHLIGHTS**

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

We selected the Vancouver Housing Authority as part of our annual audit plan, which includes reviewing funds provided under the American Recovery and Reinvestment Act of 2009. We audited the Authority to determine whether it was managing and reporting its three awarded Recovery Act Capital Fund grants in accordance with requirements.

### **What We Found**

The Authority did not manage the construction funded with Recovery Act Capital Fund grants in accordance with requirements. It paid for renovations that did not comply with Uniform Federal Accessibility Standards, for a roof that did not meet contract requirements, and for contracted work that was not completed. The Authority also approved change orders that did not meet U.S. Department of Housing and Urban Development requirements and allowed contractors to purchase goods manufactured outside the United States.

In addition, the Authority did not accurately report the Recovery Act Capital Fund grant information in [FederalReporting.gov](http://FederalReporting.gov). Specifically, it did not correctly

report the grant funds received or invoiced and the number of jobs created or retained for two of the four reports reviewed.

### **What We Recommend**

We recommend that HUD require the Authority to (1) make the 15 upgraded units at the Van Vista project compliant with UFAS or repay \$530,000, (2) obtain a 30-year warranty for the Van Vista roof or repay \$120,000, (3) obtain a change order for the entry doors and boards under sinks at the Van Vista project or repay \$17,651, (4) return \$10,963 for the ineligible change order, (5) provide support for the unsupported positive change orders or return \$135,552, (6) provide support for unsupported negative change orders or return \$26,995, (7) obtain a waiver from HUD for the foreign goods purchased or return \$420,872, and (8) develop and implement procedures to effectively monitor grant funds. In addition, HUD should require the Authority to correct the amount of grant funds received or invoiced entered into [FederalReporting.gov](http://FederalReporting.gov).

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 the discussion draft of the audit report to the Authority on November 23, 2011, and request its comments by December 8, 2011. The Authority provided its written response on December 8, 2011 and 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 Objective	4
Results of Audit	
Finding 1: The Authority Did Not Adequately Manage Its Recovery Act Funding	5
Finding 2: The Authority Did Not Accurately Report on Recovery Act Funds	12
Scope and Methodology	14
Internal Controls	15
Appendixes	
A. Schedule of Questioned Costs	16
B. Auditee Comments and OIG's Evaluation	17
C. Criteria	23
D. Ineligible and Unsupported Costs	24

## **BACKGROUND AND OBJECTIVE**

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### **Vancouver Housing Authority**

The Vancouver Housing Authority is governed by a six-member board of commissioners. Since the 1960s, it has subsidized housing for low-income families, the elderly, and disabled people. It provides affordable housing and housing assistance for more than 12,000 residents of Clark County, WA, and owns and operates 575 low-rent public housing units.

The Authority's mission is to provide opportunities to people who experience barriers to housing because of income, disability, or special needs in an environment which preserves personal dignity and in a manner which maintains the public trust.

### **Recovery Act Capital Fund Grants**

The Recovery Act included a \$4 billion appropriation for the Public Housing Capital Fund program under the U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing (PIH). The Capital Fund program provides funds annually to public housing agencies for the development, financing, modernization, and management improvements of public housing developments. The Recovery Act required \$3 billion to be distributed as formula grant funds with the remaining \$1 billion to be distributed through a competitive process. There were four categories of competitive grants that housing authorities could apply:

- A. Improvements addressing the needs of the elderly and persons with disabilities,
- B. Public housing transformation,
- C. Gap financing for projects that were stalled due to financing issues, and
- D. Creation of energy-efficient, green communities.

The Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the tenth day after the end of each calendar quarter. The recipient enters project and job information, subaward information, grant funds received or invoiced, and the number of jobs created or retained into FederalReporting.gov. It is important for the recipients to report this information accurately and in a timely manner because it is necessary for implementing the accountability and transparency reporting requirements of the Recovery Act.

The Authority received a formula grant of almost \$1.2 million, which it used to replace the roof and gutters at its Skyline Crest property and replace the roof and plumbing at its Van Vista property. The Authority also received two competitive grants: a more than \$1.4 million grant awarded to complete renovations to create an energy-efficient, green community at its Skyline Crest property and a \$530,000 grant to make 10 dwelling units at its Van Vista property fully accessible in accordance with Uniform Federal Accessibility Standards, but was sufficient to renovate 15 units.

Our objective was to determine whether the Authority managed and reported its Recovery Act capital funds in accordance with requirements.

# RESULTS OF AUDIT

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## Finding 1: The Authority Did Not Adequately Manage Its Recovery Act Funding

The Authority did not manage construction funded with Recovery Act Capital Fund grants in accordance with requirements. This condition occurred because the Authority lacked adequate procedures for monitoring grant funds. As a result, it spent \$830,198 on unsupported and \$431,835 on ineligible expenditures.

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### Deficient Construction Management

The Authority did not manage construction funded with Recovery Act Capital Fund grants in accordance with Recovery Act requirements. It paid for renovations that did not comply with Uniform Federal Accessibility Standards (UFAS), a roof that did not meet contract requirements, and contracted work that was not completed. The Authority also approved change orders that did not meet HUD requirements and allowed contractors to purchase goods manufactured outside the United States.

### Renovations Did Not Comply With UFAS

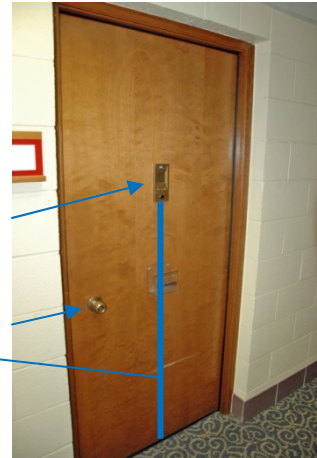
The Authority paid for renovations that did not comply with UFAS. It received a grant to modify dwelling units at the Van Vista project to comply with UFAS. However, the project manual for the renovations omitted these standards. We noted the following discrepancies from UFAS during our inspection of the property:

- Kitchen cabinets were too high from the floor in all 10 units inspected. UFAS 4.34.6.10(1) requires kitchen cabinets be a maximum of 48 inches above the floor.



- Entry doors had incorrect door knobs and peep-hole height in all 10 units inspected. UFAS 4.13.9 requires that doors be operated by hardware that is easy to grasp or push, such as lever or push-button type latches. UFAS indicates an average eye level of an adult in a wheelchair to be between 43 and 51 inches.

60 inches



- Wall-hung lavatories did not have enough wheelchair clearance in all 10 units inspected. UFAS 4.19.2 requires that the lavatory provide a clearance of 8 inches minimum depth from the front of the lavatory toward the back.

4 inches in depth



- Bathroom medicine cabinets with mirrors were hung at incorrect heights in all 10 units inspected. UFAS 4.19.6 requires the bottom of the mirror to be no higher than 40 inches from the floor.

Greater than 40 inches from the floor



- Five of the showers were the wrong dimensions. UFAS 4.21.2 requires that the size of showers be either 36 by 36 inches, to ease transferring from a wheelchair to a shower seat, or 30 by 60 inches, to wheel into the shower. Also, shower components did not meet other requirements relating to the two required sizes.

36 by 46 inches



- The refrigerator doors in five units did not have enough clearance on the door handle side. The required wheelchair clearance is 18 inches for the pull side of the refrigerator doors.



The Authority inspector did not document any of the above deficiencies in his inspections.

### **Insufficient Roof Warranty**

The Authority paid for a roof that did not meet contract requirements. The Authority entered into a \$360,000 contract to replace the roof at its Van Vista project. The project manual required a 30-year warranty for the new roof. However, the construction file for the roof replacement contained a certificate for a 20-year warranty that only covered two-thirds of the required useful life.

### **Incomplete Work Paid For**

The Authority paid for contracted work that was not completed. The Authority's contracts referred to technical specifications in each project manual. According to 24 CFR (Code of Federal Regulations) 85.36(b)(2), grantees must ensure that contractors perform in accordance with their contracts.

The Van Vista renovation project manual included the installation of new entry doors. The 15 modified units did not contain new entry doors. Additionally, the renovation blueprint showed the installation of a baffle board under the kitchen sink to protect occupants in wheelchairs from hot pipes. In all 15 units, the underside of the sink had an insulated sleeve on the hot water pipe instead of the baffle board. There was no insulation on the drain pipes or garbage disposal units, which also may become hot.



There were no change orders removing the entry doors from the scope of work or replacing the baffle board with insulated sleeves.

### **Change Order Deficiencies**

The Authority approved change orders that did not meet form HUD-5370 contract change order requirements (see appendix C). Contractors submitted change order proposals to the Authority's construction director and its inspector for approval.

The Skyline Crest roofing contract was for 59 roofs detailed in the bidding documents. The contractor submitted a change order proposal stating that it "failed to include two buildings" in its bid. The Authority approved the change order, although the contract encompassed all 59 of the roofs.

The Authority lacked supporting documentation required under 24 CFR 85.36(f)(1) and form HUD-5370(29) for 18 of the 22 change orders reviewed (see appendixes C and D). Specifically, it did not

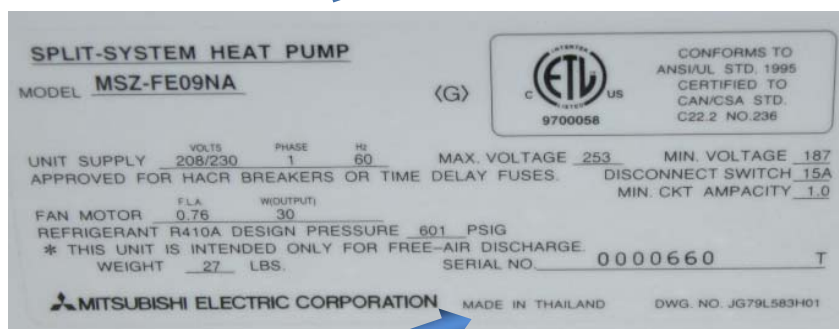
- Perform an independent cost estimate to determine the cost reasonableness of 8 change orders,
- Negotiate contractor profit for 12 change orders,
- Limit contractors to charging profit and overhead at or below safe harbor standards for 7 change orders,
- Decline to pay contractors profit on the subcontractors profits on 3 change orders, and
- Require the contractor to credit profit with reductions in the scope of work or products for 1 change order.

### **Noncompliant Goods Purchased**

The Authority allowed contractors to purchase goods manufactured outside the United States. It approved the purchase of Kohler toilets made in various



countries and Mitsubishi heat pumps made in Japan and Thailand for the Skyline Crest property.



Section 1605 of the Recovery Act requires that all of the manufactured goods used in a project be produced in the United States. PIH Notice 2009-31 states that a grantee may request a determination from HUD if an exception applies. However, the Authority did not acquire such waivers from HUD, although it was aware that contractors were installing non-American-made products.

### Inadequate Procedures

The Authority lacked adequate procedures for monitoring grant funds.

- The Authority did not have written procedures for monitoring contractor performance. Section 10 of the Authority's procurement policy stated that a system of contract administration would be maintained to monitor contractor performance. It did not provide procedures to ensure that construction projects complied with the specifications in project manuals and followed HUD requirements.

- The Authority did not have adequate change order review procedures. Under contract modifications in section 6 of its procurement policy, the only requirement was for a cost analysis to be conducted. This policy did not cover all of the HUD change order requirements (see appendix C).
- The Authority did not have written procedures for applying the buy American requirement. Amendment 1 to its procurement policy, applicable only to Recovery Act funds, stated that the Authority “shall follow Buy American requirements of section 1605 of the Recovery Act.” However, it did not list procedures to ensure that contractors only purchased American-made goods.

### Ineligible and Unsupported Expenditures

The Authority spent \$431,835 on ineligible expenditures and more than \$830,198 on unsupported expenditures. The following chart depicts these expenditures.

Ineligible	Unsupported	Grant	Description
\$10,963		Formula	A change order for the Skyline Crest project should have been rejected.
	\$530,000	Competitive – disability improvements	The 15 units at its Van Vista property were not fully assessable and safe for tenants in accordance with the grant awarded.
	\$120,000	Formula	The roof at Van Vista had a warranty for only two-thirds of the required 30-year life.
	\$17,651	Competitive – disability improvements	The entry doors and baffle boards at Van Vista were not installed or removed from the scope of work.
	\$135,552	Formula and both competitive	The change orders increasing the contracts were not supported by independent cost estimates and did not follow profit requirements.
	\$26,995	Competitive – green communities	The change orders decreasing the contracts did not contain support to show that the contract had been reduced by a reasonable amount.
\$420,872		Competitive – green communities	The Authority did not obtain HUD waivers for the heat pumps and toilets manufactured outside the United States.
<b>\$431,835</b>	<b>\$830,198</b>	<b>Total</b>	

## Recommendations

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

- 1A. Make the 15 upgraded units at Van Vista fully compliant with UFAS or return \$530,000 from non-Federal funds to the U.S. Treasury.
- 1B. Obtain a 30-year warranty for the Van Vista roof or return \$120,000, a third of the contract amount, from non-Federal funds to the U.S. Treasury. The Authority provided the 30-year warranty after fieldwork completion; therefore this recommendation will be closed upon report issuance.
- 1C. Obtain a change order crediting the project for the entry doors and baffle boards at Van Vista or return \$17,651 from non-Federal funds to the U.S. Treasury.
- 1D. Return \$10,963 for the ineligible change order from non-Federal funds to the U.S. Treasury.
- 1E. Provide support for the unsupported positive change orders or return \$135,552 from non-Federal funds to the U.S. Treasury.
- 1F. Provide support for the unsupported negative change orders or return \$26,995 from non-Federal funds to the U.S. Treasury.
- 1G. Obtain a waiver from HUD for the materials purchased contrary to the Buy American Act or return \$420,872 from non-Federal funds to the U.S. Treasury.
- 1H. Develop and implement procedures to monitor grant funds in accordance with requirements.

## RESULTS OF AUDIT

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### Finding 2: The Authority Did Not Accurately Report on Recovery Act Funds

The Authority did not accurately report Recovery Act Capital Fund grant information in FederalReporting.gov. It did not accurately report its Recovery Act grant funds received or invoiced and the number of jobs created or retained. The Authority did not understand how to accurately report the grant information. As a result, the public did not have access to accurate information about the Authority's use of Recovery Act capital funds.

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#### Inaccurate Reporting

The Authority did not accurately report Recovery Act Capital Fund grant information in FederalReporting.gov. In two of the four quarterly reports reviewed, the Authority did not accurately report its Recovery Act grant funds received or invoiced. In addition, it did not accurately calculate the number of jobs created or retained for one of the four reports.

#### Inaccurate Grant Funds Received or Invoiced

For the second quarter of 2010, the Authority overreported its formula grant funds received or invoiced by \$147,778. For the second quarter of 2011, it underreported its Skyline Crest competitive grant funds received or invoiced by \$45,413.

According to the Recipient Reporting Data Model for Recovery Act reporting, the definition of grant funds received or invoiced is the total amount of Recovery Act grant funds drawn down, reimbursed, or invoiced. The following table lists what was reported in FederalReporting.gov, the actual grant funds drawn down from HUD, and the difference between the two amounts.

Total grant funds invoiced or received				
Grant	Quarter ending	Reported	Actual	Difference
Formula	6/30/2010	\$ 952,280.83	\$ 804,502.45	\$(147,778.38)
Skyline Crest competitive	6/30/2011	\$1,231,253.98	\$ 1,276,666.77	\$ 45,412.79

#### Inaccurate Number of Jobs Created or Retained

The Authority did not accurately calculate the number of jobs created or retained for one of the four quarterly reports reviewed. For example, in the second quarter of 2010, the Authority reported 1.12 jobs created or retained with its formula grant funds. However, based on the supporting documentation, the reported number of jobs created or retained was 1.92. The Authority understated the number of jobs by 42 percent.

Office of Management and Budget (OMB) guidance M-10-08 required the Authority to report the number of jobs created or retained by the Recovery Act as “full-time equivalents.” In calculating a full-time equivalent, the number of actual hours worked in funded jobs is divided by the number of hours in a full work schedule.

### **The Authority Did Not Understand Requirements**

The Authority did not understand how to accurately report the grant information. The staff member responsible for grant reporting did not receive formal training on how to properly report required Recovery Act grant information in FederalReporting.gov. The staff member was confused by the FederalReporting.gov reporting fields and guidance. In addition, a lack of communication between the Authority’s finance and construction offices contributed to the inaccurate reporting.

### **Access to Accurate Information Not Provided**

The public did not have access to accurate information about the Authority’s use of Recovery Act capital funds. As a result, the Authority’s use of Recovery Act capital funds was not fully transparent.

### **Recommendations**

Since the Authority had nearly completed its Recovery Act program, we did not provide recommendations related to the causes for this finding. However, we do recommend that the Director of the Portland Office of Public Housing

- 2A. Require the Authority to correct the amount of grant funds received or invoiced entered into FederalReporting.gov.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work between June and October 2011 at the Authority's main office located at 2500 Main Street, its construction office located at 500 Omaha Way, and the selected Van Vista and Skyline Crest public housing developments in Vancouver, WA. The audit covered the period March 1, 2009 through June 30, 2011.

To accomplish our objective, we obtained and reviewed applicable sections of the Recovery Act, Federal Register notices, OMB memorandums, HUD regulations, HUD PIH notices and handbooks, and UFAS.

We reviewed the Authority's three Recovery Act Capital Fund grants totaling more than \$3.1 million. Our review included interviewing Authority staff and reviewing procurement records and project files. We reviewed all of the applications, bids, contracts, change orders, and buy American certifications for each of the grants. We selected and reviewed the most recent quarterly report of the 16 reports submitted to HUD for the competitive grants and the last 2 of the 7 reports submitted to HUD for the formula grant. We traced the first and most recent of the 39 HUD Line of Credit Control System (LOCCS) draw requests to the supporting documentation. We reviewed the contractor payroll records that supported the 4 HUD reports and the most recent of the 36 requests for payment submitted by the contractors.

The HUD OIG appraiser inspected the two upgraded projects to determine the quality of construction, compliance with plans and specifications, and compliance with UFAS. At Skyline Crest, he inspected the green improvements of 17 of 150 units and the roof and gutters from the ground. Originally, the appraiser was going to inspect 10 percent of the units; however, he had time to inspect two additional units. At Van Vista, he inspected the roof, plumbing, and UFAS compliance upgrades in 10 of the 15 accessible units. We selected 100 percent of the UFAS upgraded units for inspection and gave notice to the tenants. However, we were only granted access by the tenants to 10 of the units.

We did not use computer-generated data to support our audit conclusions. We compared the source documentation maintained in the Authority's files to data reported in LOCCS and FederalReporting.gov. All conclusions were based on source documentation reviewed during the audit.

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

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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:

- Controls over managing Recovery Act capital funds.
- Controls over properly reporting Recovery Act information.

We assessed the relevant controls identified above.

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

## Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not develop and implement adequate procedures to manage its Recovery Act capital funds in accordance with requirements (finding 1).
- The Authority did not adequately train its staff to ensure its understanding of how to accurately report Recovery Act Capital Fund information (finding 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$530,000
1B		\$120,000
1C		\$17,651
1D	\$10,963	
1E		\$135,552
1F		<u>\$26,995</u>
1G	<u>\$420,872</u>	
	\$431,835	\$830,198

- 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.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.



## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments

Vancouver Housing Authority (VHA) Responses to Office of Inspector General (OIG) Findings:

We thank the Office of Inspector General for their time and effort in reviewing the Authority's Recovery Act funds. We commit to remedy all noncompliant deficiencies and make process improvements in construction management and reporting.

#### **Finding 1: The Authority Mismanaged Its Recovery Act Funding**

#### **Response to Authority's Finding 1**

#### **Renovations Did Not Comply with UFAS:**

1. **Kitchen Cabinets do not meet UFAS requirements. Upper kitchen cabinets are installed too high.** VHA relies on the Architect to provide documents that meet code requirements. The Architect's documents were deficient. VHA is currently taking steps with the Architect and the Contractor to ensure that all of the kitchen cabinets are brought into full compliance.
2. **Entry Doors do not meet UFAS requirements.** Entry Doors were originally scheduled to be replaced with new hardware. This project requirement was altered during the submittal process, deleting the doors but retaining the additional hardware requirements necessary to meet UFAS standards. The Architect and VHA failed in following through with appropriate credit change order for deleting the doors. This issue is being rectified with the Contractor and a credit will be issued prior to closing out of the project. VHA is currently taking steps with the Architect and the Contractor to ensure that all entry doors are brought into full compliance.
3. **Wall Hung Lavatories do not meet UFAS requirements.** The lavatories specified, purchased, and installed purport to be ADA compliant in manufacturer literature. VHA is currently taking steps with the Architect, the Contractor, and the Manufacturer to ensure installed lavatories are brought into full compliance. If the installed lavatories cannot meet UFAS requirements, new lavatories will be purchased and installed to ensure full compliance.
4. **Medicine Cabinets do not meet UFAS requirements.** VHA inquired of the Architect during construction if the mirrors scheduled for installation above the bathroom sinks could be changed to medicine cabinets to allow more storage capacity for tenants. The Architect provided Architect's Supplemental

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

Instructions (ASI) for the medicine cabinets without verifying that the cabinets could be installed to meet UFAS, or ADA, requirements. VHA relied on Architect's knowledge of codes to ensure cabinets were appropriate. The cabinets cannot be installed to code height without conflict with the sink handle. VHA is currently taking steps with the Architect and the Contractor to relocate the medicine cabinets and will reinstall the original or new mirrors to ensure full compliance with UFAS requirements.

5. **Shower Units wrong dimensions.** The shower units in question are in five (5) additional unit conversions which are "assisted living" where the initial ten (10) room conversions are not. WA State DSHS requires larger shower units in "assisted living" for caregivers and nursing aides to assist tenants with bathing. This requirement is more stringent than the minimum 36"x36" UFAS shower requirement. The existing space cannot accommodate a full 30"x60" wheel-in shower due to existing utility chases that extend thru the full ten (10) floors of the structure. VHA is required to build to the most stringent code(s). Therefore the State requirement supersedes the Federal standard in this case and should be accepted as compliant.
  
6. **Refrigerator Door clearance on opening side does not meet UFAS requirements.** The refrigerator door clearance in the kitchens are only present in the five (5) additional unit conversions in "assisted living" units where the increased shower size (see note 5 above) reduces the kitchen dimension creating the non-compliant condition. VHA relied on the Architect to provide documents that meet code requirements for fully accessible kitchens. The Architect's documents are deficient. VHA is currently taking steps with the Architect and the Contractor to ensure that the refrigerator door clearance requirements are brought into full compliance.

**Insufficient Roof Warranty:**

**Comment 2**

Roof Warranty provided by the Contractor's subcontract did not match specification requirements regarding life of warranty. VHA has received a corrected warranty with the correct warranty lifespan.

**Incomplete Work Paid For:**

**Comment 3**

1. **New Entry Doors missing.** Entry Doors were originally scheduled to be replaced with new doors and hardware. This project requirement was altered during the submittal process, deleting the new doors, retaining existing doors, but keeping additional hardware requirements as necessary to meet UFAS standards. The Architect and VHA failed to follow through with appropriate credit change order for deleting the doors. This issue is being rectified with the Contractor and VHA will issue a negative change order prior to closing out of the project.
  
2. **Sink Baffle Boards.** It was reported that during construction a field directive was given by the VHA construction manager to insulate the supply and waste lines under the kitchen sink in lieu of installing the protective "baffle board".

Ref to OIG Evaluation

Auditee Comments

Comment 4

3. The fact that the supply and waste lines are insulated provides credence to this statement as the lines would not be insulated if the “baffle board(s)” were to be installed. The insulation of supply and waste lines is an acceptable UFAS standard. All parties failed in providing adequate documentation of this field directive and potential cost impacts, if any. VHA is currently working with the Architect and the Contractor to provide proper documentation and review cost impacts. VHA will issue an appropriate additive or deductive change order prior to project closeout.

Change Order Deficiencies:

1. **Skyline Crest Roofs.** The Pre-construction meeting minutes note that the Contractor informed VHA they had missed two (2) of the fifty-nine (59) roofs in their estimate and subsequent bid. The Contractor agreed to install all fifty-nine roofs for the bid quote. Had the Contractor asked to withdraw his bid due to the error, the next lowest bid would have increased the overall project price by \$37,275. At the end of the project the Contractor requested if, in good faith, they could recover the lost cost of the two (2) roofs in the amount of \$11,088. VHA honored the Contractor’s request. VHA will work with HUD to come to an agreeable resolution on this matter, which may include returning funds from non-Federal sources to the U.S. Treasury.
2. **No Independent Cost Estimate eight (8) Change Orders.** VHA will perform independent cost estimates on all eight (8) change orders in question. Any deviation in pricing will be reflected in a final change order prior to project closeout.
3. **Negotiate Contractor Profit for twelve (12) change orders.** VHA did not negotiate Contractor profit margins on any change orders. It is too late to reasonably pursue remediation of this issue with the Contractor. VHA is taking steps including, but not limited to, developing new policies and procedures for better communication of funding requirements to clearly identify and manage all project conditions and requirements. VHA will work with HUD to come to an agreeable resolution on this matter, which may include returning funds from non-Federal sources to the U.S. Treasury.
4. **Contractor Profit / Overhead higher than Safe Harbor standards for seven (7) change orders.** There is no specification or contractual requirement with the Contractor tied to Safe Harbor standards. VHA is taking steps including, but not limited to, developing new policies and procedures for better communication of funding requirements to clearly identify and manage all project conditions and requirements. VHA will develop a matrix of costs to identify any payment in excess of Safe Harbor standards for all of the seven (7) change orders in question. VHA will work with HUD to come to an agreeable resolution on this matter, which may include returning funds from non-Federal sources to the U.S. Treasury.

**Ref to OIG Evaluation**

**Auditee Comments**

5. **Decline to pay Contractors profit on subcontractor’s profit on three (3) change orders.** There are specification requirements that address exclusion of Contractor profit on subcontractor profit on change orders. VHA did not enforce this contractual requirement, however as the project is still open, VHA will issue a negative change order to recover the additional profit per contractual requirements and prior to project closeout.
  
6. **Decline to pay Contractors profit on three (3) negative change orders.** There are specification requirements that address inclusion of Contractor profit on negative change orders. VHA did not enforce this contractual requirement, however as the project is still open, VHA will issue a negative change order to recover the missing profit per contractual requirements and prior to project closeout.

**Non-compliant Goods Purchased:**

1. **Kohler Toilet Substitution not in compliance with “American made” requirement.** The original toilets specified met American-made requirements, but conflicted with ADA spatial requirements due to existing construction. The Contractor and their plumbing subcontractor, both of whom were aware of the American made requirements, submitted a substitute toilet that could meet American made requirements, but required them to specifically specify “American made” when purchasing. The Contractor and their plumbing sub failed to specify “American made” when the purchase was made. VHA will work with HUD to come to an agreeable resolution on this matter, which may include returning funds from non-Federal sources to the U.S. Treasury.
  
2. **Mitsubishi Mini-Split Heat Pumps do not comply with “American Made” requirement.**  
We were aware of the American made requirement but did not submit the proper waiver to HUD. We are currently working with the local HUD office to submit the appropriate waiver request.

**Finding 2: The Authority Did Not Accurately Report on Recovery Act Funds**

**Response to Authority’s Finding 2**

We are always striving to produce complete and accurate reports as required by laws and regulations and are committed to improving our internal processes to achieve this goal. That said, we feel that this finding is rather misleading as it does not reflect the fact that most of the errors noted by IOG represent simple human mistakes as opposed to process deficiencies. In general, we feel this finding is unfair and should not be included in the report for a number of reasons.

**Comment 5**

1. The newly designed Recovery.gov reporting system was difficult to use. We showed evidence to OIG where HUD itself had instructed us to enter an incorrect amount for one of the reporting periods mentioned in the OIG report.

**Comment 6**

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 7**

2. We had to dispute OIG staff's calculation of the number of jobs created in one quarterly report and convince them of their error. The number of jobs methodology in Recovery.gov follows a certain non-exact statistical model and to expect the Authority to be correct to double digit decimal is unreasonable.

- **Inaccurate Grant Funds Received and Invoiced**

**Comment 5**

We agree with the OIG on their calculation of grant funds invoiced and received. We note that the two incorrect quarterly reports represent approximately 5% of reports filed. We also note that the differences shown are cumulative numbers and do not cover only the expenditures of that quarter. The dollar amounts reported in total were more than 95% accurate.

- **Inaccurate Number of Jobs Created or Retained**

**Comment 8**

After review we concur with the OIG on their calculation of number of jobs reported. However, we are disappointed to see the statement "understated jobs by 42%". We believe it would be more accurate to describe this error as "understated jobs by 0.8 FTEs". We are talking about the difference between 1.12 and 1.92 jobs created within a three month period on one of the three grants audited. The discrepancy represents 5% of total jobs created and was likely a simple typing error.

## OIG Evaluation of Auditee

- Comment 1** The Authority should have contacted HUD to address the space restriction if the 30"x60" showers specified by UFAS could not be installed.
- Comment 2** We acknowledged the corrected warranty in recommendation 1B.
- Comment 3** We edited recommendation 1C based on the Authority's response that the entry doors and baffle board were not to be installed.
- Comment 4** Form HUD 5370 states that a change order makes changes within the scope of the contract including changes in the specifications; method of performance; facilities, equipment, materials, services, or site; or acceleration in the work performance. Failing to include items in a contractors bid does not qualify as a change order since the contract included all 59 roofs.
- Comment 5** The Recovery Act requires accurate reporting. We discovered errors in two of the four reports reviewed; therefore we are required to report on any inaccurate reporting.
- Comment 6** We acknowledge that some of the report comments from HUD were confusing. However, the comments did state "HUD has identified 2 possible error(s) in your report. Please double-check the relevant entries in your report. If needed, please submit a corrected report no later than July 30." This comment only directs the Authority to check the amounts reported.
- Comment 7** When we asked the Authority to support the formula grant's number of jobs calculation, we were provided the payroll documents and were not given the Authority's methodology for calculating the number of jobs created. We amended our report to reflect the methodology used by the Authority once it was given to us.
- Comment 8** Underreporting the number of jobs by 0.80 FTEs when the correct number of jobs to report was 1.92 FTEs is a material error.

## Appendix C

### CRITERIA

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- A.** PIH Notice 2009-12 provides procedures for processing Recovery Act Capital Fund formula grants, including the requirement to follow 24 CFR Part 85.
- B.** The Updated Notice of Funding Availability for HUD’s Capital Fund Recovery Competition Grants, Docket Number FR-5311-N-02, states that:
- Applicants must certify that they will administer the grant in accordance with all requirements of the notice and public housing, including the Housing Act of 1937, Recovery Act, HUD regulations, annual contributions contract, and all other Federal requirements, and
  - Costs must be reasonable, comparable to industry standards, and subject to HUD’s cost control and safe harbor standards, including limiting the contractor’s fee or profit to 6 percent and overhead to 2 percent of the change order amount.
- C.** According to 24 CFR 85.36(b)(2), grantees must maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.
- D.** According to 24 CFR 85.36(f)(1), grantees must perform a cost or price analysis with every procurement action including contract modifications. Grantees must make independent estimates before receiving bids or proposals.
- E.** Form HUD-5370 is required for construction contracts greater than \$100,000 that are awarded by public housing agencies. Under clause 29 applicable to contract changes, a change order makes changes within the scope of the contract, including changes in the specifications; method of performance; or facilities, equipment, materials, services, or site; or acceleration in the work performance. It requires contractors to provide a written change order proposal with an itemized breakdown of all increases and decreases to the contract. It further requires the amount of profit to be negotiated and stipulates that contractors cannot profit on the profit received by a subcontractor. In the case of deleted work, the change order must include a credit for profit and may include a credit for indirect costs.
- F.** Uniform Federal Accessibility Standards are for the design, construction and alteration of buildings so that physically handicapped persons will have access to and use of them in accordance with the Architectural Barriers Act. UFAS embodies the standards used by several governmental agencies, including HUD, to minimize any differences.

## Appendix D

### INELIGIBLE AND UNSUPPORTED COSTS

Contract	Change order	No independent cost estimate	No profit negotiation	Profit & overhead over safe harbor	Profit on subcontractors profit	No reduction in profit	Change order total	Questioned costs
<b>Ineligible change orders</b>								
Skyline Crest roof [1]	2						\$ 11,086.90	\$ 10,962.90
<b>Total ineligible change orders</b>								<b>\$ 10,962.90</b>
<b>Unsupported change orders</b>								
Skyline Crest roof	1	♦					\$ 5,356.25	\$ 2,920.99
Van Vista plumbing	1	♦	♦				\$ 1,657.00	\$ 1,657.00
Van Vista plumbing	2	♦	♦				\$ 1,780.00	\$ 1,780.00
Skyline Crest green	1		♦	♦			\$ 16,162.88	\$ 2,025.00
Skyline Crest green	4		♦	♦			\$ 6,015.45	\$ 780.00
Skyline Crest green	5	♦	♦	♦			\$ 66,450.78	\$ 64,733.15
Skyline Crest green [2]	6	♦	♦	♦			\$ 57,561.18	\$ 46,982.66
Van Vista UFAS phase 1	1	♦					\$ 5,575.94	\$ 5,575.94
Van Vista UFAS phase 1	2		♦	♦			\$ 14,673.98	\$ 1,936.84
Van Vista UFAS phase 1	3		♦				\$ 2,415.29	\$ 131.04
Van Vista UFAS phase 1	4		♦				\$ 9,378.03	\$ 508.80
Van Vista UFAS phase 1	5		♦		♦		\$ 9,751.25	\$ 547.17
Van Vista UFAS phase 1	6		♦				\$ 588.34	\$ 31.92
Van Vista UFAS phase 2	1		♦	♦	♦		\$ 26,449.58	\$ 3,310.38
Van Vista UFAS phase 2	2	♦					\$ 1,460.65	\$ 1,460.65
Van Vista UFAS phase 2	3			♦	♦		\$ 9,345.36	\$ 1,170.12
<b>Total positive unsupported change orders</b>								<b>\$135,551.66</b>
Skyline Crest green	2	♦					\$(10,000.00)	\$(10,000.00)
Skyline Crest green	3					♦	\$(80,500.00)	\$(12,075.00)
Skyline Crest green [2]	6	♦					\$ (4,920.00)	\$ (4,920.00)
<b>Total negative unsupported change orders</b>								<b>\$ (26,995.00)</b>

For details on the change orders above see finding 1, The Authority Mismanaged Its Recovery Act Funding, under the inadequate change orders section.

- 1) The second Skyline Crest roof change order included the amount of the two forgotten roofs.
- 2) The sixth Skyline Crest green renovation change order included both increases and decreases to the contract.