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MEMORANDUM NO:  
2010-AT-1804

January 26, 2010

MEMORANDUM FOR: Charles T. Barnett, Director, Nashville Program Center, Office of  
Public Housing, 4LPH

**//signed//**  
FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA  
SUBJECT: The Chattanooga Housing Authority Demonstrated Capacity To Administer Its  
Recovery Act Funds

### **INTRODUCTION**

The Chattanooga Housing Authority (Authority) was awarded a \$6.35 million capital fund formula grant and a \$4.8 million capital fund competitive grant under the American Recovery and Reinvestment Act of 2009 (Recovery Act). In accordance with our goal to review funds provided under the Recovery Act, we conducted a capacity review of the Authority's operations. The objective was to determine whether the Authority had the capacity to adequately administer its capital fund Recovery Act funding according to applicable requirements. Our review did not result in any reportable conditions or recommendations.

### **METHODOLOGY AND SCOPE**

To accomplish our objective, we

- Obtained an understanding of Recovery Act legislation, program guidance, and criteria;
- Reviewed relevant Authority controls including applicable policies and procedures;
- Interviewed U.S. Department of Housing and Urban Development (HUD) and Authority officials;

- Reviewed Authority files and records including organization charts, board minutes, annual/5-year plans, capital fund grant documentation, and financial records;
- Analyzed data from HUD's Line of Credit Control System; and
- Reviewed Authority procurement files and records for capital fund projects. We selected the three highest dollar Recovery Act contracts representing 81 percent of the contract amounts awarded. We also selected the highest dollar amount contract from each of the 2007 and 2008 grants, representing 11 percent and 68 percent of the contract amounts awarded under those grants, respectively.

Our review generally covered the period January 1, 2007, through August 31, 2009, and we extended the period as needed to accomplish our objective. We conducted the review from September through November 2009 at the Authority's offices located at 801 North Holtzclaw Avenue, Chattanooga, TN, and our office in Knoxville, TN.

## **BACKGROUND**

The Recovery Act became law on February 17, 2009. It included a \$4 billion appropriation for the Public Housing Capital Fund, to be used for capital and management activities for public housing agencies, as authorized under Section 9 of the United States Housing Act of 1937 as amended. The Recovery Act required that \$3 billion of these funds be distributed by the same formula used for amounts made available in fiscal year 2008, whereas the remaining \$1 billion was to be awarded on a competitive basis. Under the formula program, housing agencies were required to give priority consideration to the rehabilitation of vacant rental units and prioritize projects that were already underway or included in the 5-year capital fund plans.

The expected benefits of this program are to preserve and create jobs and enhance the quality, longevity, and energy efficiency of public housing. The program is expected to meet these objectives by renovating, retrofitting, and modernizing public housing units and providing employment for construction workers and skilled laborers. In meeting its objectives, the program is expected to support economic recovery, reduce greenhouse emissions and consumer energy costs, and preserve and create public housing that is affordable to lower income families.

The Authority, chartered in 1938 pursuant to the Tennessee Housing Authorities Law, is a public nonprofit corporation which carries out public housing and urban development programs as its primary activities. The Authority is governed by a seven-member board of commissioners appointed by the mayor of Chattanooga to staggered 5-year terms. The executive director serves as secretary to the board and has responsibility for the administration of the agency, pursuant to board policy. The mission of the Authority is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.

On March 18, 2009, HUD awarded the Authority a \$6.35 million capital fund formula grant using funds provided under the Recovery Act.

Additionally, on September 23, 2009, HUD awarded the Authority a \$4.8 million competitive capital fund grant using funds provided under the Recovery Act. This award was for the construction of new units at the Authority's Fairmont Apartments development. During the past 3 years, the Authority has received \$12.9 million in capital funds as shown in the table below. The total Recovery Act grants represent an increase of nearly \$7 million over the Authority's recent annual capital fund grants.

<b>Grant</b>	<b>Capital fund grant number</b>	<b>Amount</b>
2007	TN37P00450107	\$4,210,056
2008	TN37P00450108	\$4,225,352
2009	TN37P00450109	\$4,357,341
Total		\$12,792,749

Recovery Act-formula	TN37S00450109	\$6,351,256
Recovery Act-competitive	TN00400001209G	\$4,877,330
Total Recovery Act		\$11,228,586

### **RESULTS OF REVIEW**

Based upon our limited review, the Authority had the capacity to properly administer its capital fund Recovery Act grants. The Authority had

- Implemented adequate controls including applicable written policies and procedures,
- Adequately planned for the use of funds,
- Successfully administered past capital fund grants, and
- Complied with specific requirements for capital funds provided under the Recovery Act.

The Authority had written policies and procedures and had updated them to incorporate Recovery Act requirements. Its annual plan and a revision outlining the planned use of Recovery Act funds had been reviewed and approved by HUD.

The Authority had successfully administered its past capital fund grants and, at the time of our review, was in compliance with the requirements for capital funds provided under the Recovery Act.

The Authority had met the requirements for timely obligation and expenditure of capital fund grants. It had met all guidelines for obligations and expenditures for capital fund grant years 2005 and 2006. In addition, it had successfully met its obligation deadline for grant year 2007 and had expended 98 percent of those funds having an expenditure deadline of September 12, 2011. The grants for years 2008 and 2009 and the Recovery Act were ongoing. In addition, the Authority was well positioned to meet the Recovery Act requirement that all funds be obligated within 12 months of grant award and expended within 3 years. As of August 31, 2009, the Authority had obligated 97 percent of the funds and expended 19 percent.

Contracts/activities for which the Authority had expended fiscal years 2007 and 2008 capital funds and Recovery Act funds were either complete or progressing. Our review of five contracts awarded with capital funds from the 2007 (one), 2008 (one), and Recovery Act (three) grants showed that the Authority complied with both Federal procurement requirements and its own policies and procedures. We also selected the largest Recovery Act capital fund grant project, Mary Walker Towers, to review for possible premature replacement of dwelling equipment and/or utility systems. The planned purchase of dwelling equipment and plumbing renovations for this project did not constitute premature replacement.

Our tests of expenses from the 2007 and 2008 capital fund grants as well as Recovery Act funds showed that the expenses were eligible and supported by adequate documentation. In addition, the Authority complied with HUD restrictions for its use of funds for operations expense (account 1406 – 20 percent), management improvements (account 1408 – 20 percent), and administrative expenses (account 1410 – 10 percent) for capital fund grant years 2007 and 2008 and the 2009 Recovery Act grants.

In addition to the above, the Authority complied with capital fund requirements for Recovery Act funds. Specifically,

- The Authority planned to use its grants to supplement expenditures, not supplant expenditures from other sources as prohibited by the Recovery Act. It had not obligated/expended Recovery Act funds to pay for contracts awarded for previous capital fund projects and had not deobligated fiscal year 2007 or 2008 capital funds to substitute Recovery Act funds for activities that had already been funded.
- Review of contracts for seven projects confirmed that the Authority's planned use of funds was permitted under the Recovery Act. The plans were also in accordance with the Authority's planned use of Recovery Act funds as represented in its annual statement. These contracts represented 89 percent of the total obligations made with the Recovery Act funds.
- The Authority complied with the Recovery Act "buy American" requirement. All three contracts included a domestic procurement affidavit, affirming that all iron, steel, and manufactured goods to be provided for the project would be produced in the United States.

## **AUDITEE RESPONSE**

We provided a draft memorandum to the Authority on January 12, 2010. In an email dated January 20, 2010, the Authority concurred with the memorandum and declined the opportunity to provide written comments. Since the memorandum contained no reportable conditions or recommendations, the Authority agreed that an exit conference was not necessary.