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TO: Carol Ann Roman, Director, Denver Office of Public Housing, 8APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The Housing Authority of the City and County of Denver, CO, Generally Followed Requirements When Obligating and Expending Its Recovery Act Capital Funds But Did Not Accurately Report Recovery Act Grant Information

HIGHLIGHTS

What We Audited and Why

We reviewed the Housing Authority of the City and County of Denver, CO (Authority), because it had the largest number of low-rent and Section 8 units and received the largest amount of American Recovery and Reinvestment Act of 2009 (Recovery Act) capital funds of all of the housing authorities in HUD's Region VIII (Colorado, Utah, Wyoming, Montana, North Dakota, South Dakota).

The objectives of our review were to determine whether the Authority obligated and expended its formula Recovery Act capital funds in accordance with Recovery Act rules and regulations and whether it properly reported Recovery Act information in federalreporting.gov.

What We Found

The Authority generally followed Recovery Act rules and regulations in the obligation and expenditure of its formula Recovery Act capital funds. However, it did not accurately report required Recovery Act capital fund grant information in federalreporting.gov.

For the five quarterly reports submitted during our audit period, the Authority overreported the number and total amount of payments to vendors of greater than \$25,000. For payments to vendors of less than \$25,000, the Authority underreported the number of payments in two quarters, overreported the number of payments in one quarter, and underreported the total amount of payments in all five quarters.

What We Recommend

We recommend that the Denver Office of Public Housing assist the Authority in receiving formal training on how to properly report Recovery Act information in 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 May 20, 2011, and requested its comments by June 3, 2011. The Authority provided its written response on June 1, 2011, and agreed with the finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in the appendix of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City and County of Denver, CO (Authority), was created as a quasi-municipal corporation by the City of Denver, CO, in 1938 through the United States Federal Housing Act of 1937 for the purpose of providing safe, decent, and sanitary housing for low-income families. The Authority receives subsidy assistance from the U.S. Department of Housing and Urban Development (HUD) to provide housing to eligible low-income households. It is responsible for other rental assistance programs including Section 8 programs, which are governed by HUD, and various other housing assistance programs governed by the Authority that allow it to provide alternative housing possibilities for low- to moderate-income residents of Denver. The Authority has continually entered into annual contributions contracts with HUD since May 26, 1953, to provide low-rent housing to qualified individuals.

The mission of the Authority is to serve the residents by developing, owning, and operating safe, decent, and affordable housing in a manner that promotes thriving communities. The executive offices of the Authority are located at 777 Grant Street, Denver, CO.

The following table lists the number of public housing and Section 8 Housing Choice Voucher program units managed by the Authority as of January 31, 2011, along with the amount of funding awarded by HUD for fiscal years 2008 and 2009.

Public housing program		Section 8 Housing Choice Voucher program		Public Housing Capital Fund program
Units	Amount awarded	Units	Amount awarded	Amount awarded
3,904	\$16 million	5,808	\$52 million	\$8 million

In February 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act), which includes \$13.61 billion for projects and programs administered by HUD, nearly 75 percent of which was allocated to State and local recipients. Recovery Act investments in HUD programs will generate tens of thousands of jobs, modernize homes to make them energy efficient, and help the families and communities hardest hit by the economic crisis. Almost all of the remaining 25 percent of the funds have been awarded via competition. The Authority received more than \$7 million in Public Housing Formula Recovery Act grant funds (Formula Recovery Act capital funds). As of January 19, 2011, the Authority had expended more than \$6 million of its Formula Recovery Act capital funds.

The Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. The recipient enters project and job information, sub-award information, and vendor transaction information in federalreporting.gov. It is important for the recipients to accurately and timely report this information, because it is necessary to effectively implement the accountability and transparency reporting requirements of the Recovery Act.

The objectives of our review were to determine whether the Authority obligated and expended its Formula Recovery Act capital funds in accordance with Recovery Act rules and regulations and whether it properly reported Recovery Act information in federalreporting.gov.

RESULTS OF AUDIT

Finding: The Authority Did Not Accurately Report Recovery Act Grant Information in Federalreporting.gov

The Authority did not accurately report required Recovery Act capital fund grant information in federalreporting.gov. It did not understand how to accurately report the grant information. As a result, the public did not have access to accurate information related to the Authority's expenditures of Recovery Act capital funds.

The Authority Did Not Accurately Report the Number of Vendors and Expenditures

The Authority generally obligated and expended Recovery Act grant funds in accordance with Recovery Act requirements, but it did not accurately report required Recovery Act grant information in federalreporting.gov. According to the Recovery Act reporting requirements (2 CFR (Code of Federal Regulations) Part 176), Recovery Act grant recipients are required to report the following information in federalreporting.gov:

- Amount of the Recovery Act grant award
- Project information for use of the grant funds
- Number of jobs created or retained using Recovery Act grant funds
- Grant funds invoiced
- Grant funds received
- Expenditure amounts
- Listing of vendors receiving Recovery Act grant funds
- Vendor transactions/payments

For the five quarterly reports submitted during our audit period, the Authority overreported the number and total amount of payments to vendors of greater than \$25,000. For payments to vendors of less than \$25,000, the Authority underreported the number of payments in two quarters, overreported the number of payments in one quarter, and underreported the total amount of payments in all five quarters.

The following tables lists what was reported in federalreporting.gov, what the actual expenditures were, and the difference between the two numbers.

Total number & amount of payments to vendors greater than \$25,000					
Quarter ending date for reporting period	Expenditures reported in federal-reporting.gov	Actual expenditures	Reporting differences*	Number of vendors reported in federal-reporting.gov	Actual number of vendors
09/30/2009	\$758,778	\$703,849	\$54,929	9	6
12/31/2009	\$1,375,253	\$537,563	\$837,690	23	6
03/31/2010	\$309,405	\$283,177	\$26,228	9	2
06/30/2010	\$3,032,242	\$1,498,347	\$1,533,895	23	16
09/30/2010	\$5,231,470	\$2,065,118	\$3,166,352	33	14

*Represents overreported expenditures

Total aggregate number & amount of payments to vendors less than \$25,000					
Quarter ending date for reporting period	Expenditures reported in federal-reporting.gov	Actual expenditures	reporting differences**	Number of vendors reported in federal-reporting.gov	Actual number of vendors
09/30/2009	\$10,650	\$20,190	(\$9,540)	3	
12/31/2009	\$29,692	\$59,933	(\$30,241)	8	
03/31/2010	\$118,117	\$230,736	(\$112,619)	16	23
06/30/2010	\$209,559	\$342,329	(\$132,770)	32	31
09/30/2010	\$209,559	\$494,264	(\$284,705)	32	40

**Represents underreported expenditures

The Authority Did Not Understand the Reporting Requirements

The Authority did not understand how to accurately report the grant information. The assistant chief financial officer entered Recovery Act grant information into federalreporting.gov. He had received no formal training on how to properly report required Recovery Act grant information in federalreporting.gov.

The Public Did Not Have Access to Accurate Grant Information

The public did not have access to accurate grant information related to the Authority's expenditures of Recovery Act capital funds. As a result, the Authority's use of Recovery Act capital funds was not transparent.

Recommendations

We recommend that the Director of the Denver Office of Public Housing

- 1A. Assist the Authority in receiving formal training on how to accurately report required Recovery Act grant information in federalreporting.gov.
- 1B. Perform a postmonitoring review of the Authority's input into federalreporting.gov to ensure that the Authority meets Recovery Act reporting requirements.

SCOPE AND METHODOLOGY

Our review period covered March 1, 2009, through December 31, 2010. We performed our onsite audit work from February through early April 2011 at the Authority's office located at 777 Grant Street, Denver, CO.

To accomplish our objectives, we obtained and became familiar with applicable sections of the Recovery Act, Federal Register notices, HUD regulations, HUD Office of Public and Indian Housing notices, and Authority policies related to the use of its Recovery Act capital funds.

To determine whether the Authority properly obligated and expended its Recovery Act capital funds in accordance with Recovery Act rules and regulations, we examined documentation in 3 of 22 Recovery Act procurement contracts issued by the Authority. The three contracts totaled more than \$2.5 million of the more than \$7 million in Formula Recovery Act capital funds awarded to the Authority. We selected two contracts based on large discrepancies identified between the amounts reported to the public in recovery.gov as compared to the actual check amounts paid to the vendors. The amounts reported to the public in recovery.gov were much lower than the actual amount paid to the vendors. We selected the third contract because it was the largest contract using the Authority's Recovery Act capital funds. We then applied applicable Recovery Act regulations and the Authority's Recovery Act procurement policy in our review of those documents.

To determine whether the Authority properly entered Recovery Act information into federalreporting.gov, we examined all quarterly expenditures during our audit period. We then compared that information to what was reported in federalreporting.gov.

During the audit, we identified a minor issue regarding the Authority's Recovery Act contract administration system and not accurately reporting in federalreporting.gov the correct number of jobs created and the number of jobs retained for two quarterly reporting periods, which we communicated to the Authority and HUD in a separate management letter.

We did not use computer-generated data as audit evidence or to support our audit conclusions. We used source documentation maintained by the Authority in its Recovery Act procurement contract files for background information and in selecting our samples. We compared the source documentation to data reported in federalreporting.gov and data reported in HUD's Line of Credit Control System. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

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 objectives:

- Controls over the obligation and expenditure of Recovery Act capital funds.
- Controls over properly entering Recovery Act information into federalreporting.gov.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- The Authority did not provide training to staff responsible for entering data into federalreporting.gov to ensure that staff understood how to accurately report the Recovery Act capital fund information.

**Separate Communication of
Minor Deficiencies**

Minor internal control and compliance issues were reported to the auditee in a separate memorandum, dated June 16, 2011.

Appendix

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

The Denver Housing Authority provided its written comments in the following email.

“ DHA acknowledges that some over-**and-under** reporting errors of vendor payments occurred in the federalreporting.gov system. OMB’s reporting guidance for ARRA was not very clear and was issued after some of these errors identified in the OIG report were already submitted. For the ARRA federal reporting, DHA consolidated payments to the same vendor in the same quarter regardless of whether these payments were over \$25,000 or under \$25,000. The federal reporting system and guidance appear to have design inconsistencies because it allows payments under \$25,000 to the same vendor in the same quarter to be reported as cumulative for all previous and current quarters. In addition, the federal reporting system has a copy function that copies all vendor payments over \$25,000 from prior quarter without requiring the deletion of copied prior-quarter payments before submission of the current quarter . DHA did not find clear guidance on the correct reporting methodology and reported certain payments in a cumulative fashion.DHA also found out that once a new quarter reporting begins, the federal reporting system does not allow us to correct prior submissions.

It is important to note that DHA’s reporting methodology did not cause any general ledger duplication of payments or any duplicate drawdown of funds from the LOCCS system. DHA agrees with the OIG that these reporting issues may have caused the public to access wrong information. DHA welcomes the opportunity to get clear guidance on ARRA reporting in the federalreporting.gov system. Going forward, DHA is following the clarifications provided to DHA during the OIG audit and will take additional training as offered by the Denver Office of Public Housing .”

Ref to OIG Evaluation

Auditee Comments

Please call me if you have any questions.

Thanks,

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OIG Evaluation of Auditee Comments

Comment 1

The Authority generally concurred with the report and plans to work with HUD to obtain training and follow the reporting guidelines.