



Office of the City Auditor

INFORMATION CALENDAR

April 20, 2010

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Recovery Act Readiness: Housing Prepared to Meet Funding Requirements

INTRODUCTION

The objective of our audit was to determine if the Department of Housing and Community Services (Housing) has adequate procedures and controls to ensure compliance with requirements of the American Recovery and Reinvestment Act (Recovery Act). Our audit found that these procedures and controls are in place. We are pleased to report that our audit of Housing resulted in no findings, and no recommended improvements for Housing's oversight of Recovery Act financing.

CURRENT SITUATION AND ITS EFFECT

Housing appears to be prepared to meet Recovery Act requirements. It has established procedures and controls to accurately capture all data needed to report revenue, expenditures, and jobs created under each Recovery Act grant. In addition, Housing has posted a notice of employee whistleblower rights in its offices, and at a public health clinic to be renovated with Recovery Act funds. It will require subcontractors to post the notice at their Recovery Act work sites. Finally, Housing's Recovery Act subcontracts will include terms and conditions to require compliance with all applicable provisions of the Act. These procedures and controls are explained in greater detail in the attached report.

Housing's Recovery Act grants have stringent limits on administrative costs. There is a possibility that the General Fund might have to absorb administrative costs that exceed these limits.

BACKGROUND

The Recovery Act was enacted in February 2009 to stimulate recovery in response to the most severe economic crisis since the Great Depression. The Act holds grant recipients to high standards for transparency and accountability in expenditure of funds received. For example, it requires prime recipients to report detailed quarterly data on grant projects, expenditures, jobs created, and subcontracts awarded to FederalReporting.gov. It also establishes extensive whistleblower protection for employees that report gross waste, abuse or other specified misconduct. Recovery Act funding comes with other requirements, such as Davis-Bacon Act wage rate protection and use American made iron, steel, or manufactured goods for construction projects.

These and other requirements are explained in greater detail in the attached audit report.

An audit of Recovery Act funds was initiated because of the inherent risk associated with accepting funds at a time when the funder's requirements were not yet fully developed. We focused on Housing because the Department is responsible for almost \$3.3 million in Recovery Act grants, which is half of the City's known funding to date under the Act.

FISCAL IMPACT

The Recovery Act will provide Housing with almost \$3.3 million in known funding to provide services to Berkeley citizens and to create jobs in the area. Housing also anticipates receiving almost \$380,000 in additional funding. Noncompliance with Federal grant terms could cause the grantors to withdraw the funds. It could also result in Single Audit findings that could impair future grant funding for other City programs. Housing's successful establishment of appropriate internal controls and procedures reduces these risks for Recovery Act funds and for the much larger dollar amount of total Federal grants to the City.

POSSIBLE FUTURE ACTION

We will consider additional audits of grant funding for next year's audit plan based on identified risks, including the dollars involved. The auditors invite the City Council and the City Manager to make suggestions for next year's audit plan this month.

CONTACT PERSON

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1. Recovery Act Readiness: Housing Prepared to Meet Funding Requirements