
AUDIT REPORT



HOUSING AUTHORITY OF THE
CITY OF BRIDGEPORT

BRIDGEPORT, CONNECTICUT

00-BO-204-1004

JULY 5, 2000

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	July 5, 2000
Audit Case Number	00-BO-204-1004

TO: Donna J. Ayala, Director, Office of Public Housing, Massachusetts State Office, 1APH

FROM: William D. Hartnett, District Inspector General, Office of Audit, 1AGA

SUBJECT: Housing Authority of the City of Bridgeport
Bridgeport, Connecticut

We performed an audit of the Housing Authority of the City of Bridgeport Low-Income Public Housing and Section 8 programs. The objective of our review was to determine if the Authority has been operating its programs in an efficient and effective manner.

Although the Authority is classified as a standard performer, the Authority has not operated their programs in an efficient and effective manner. The report contains nine findings which address: (1) excessive operating subsidies and failure to maintain a vacant high-rise building; (2) improper use of operating subsidies for development of 21 duplexes; (3) excessive vacancies; (4) need to improve procurement services; (5) replacement of Father Panik units which is behind schedule; (6) unused Section 8 certificates and vouchers; (7) duplicate Section 8 administrative fees received from HUD; (8) lack of internal controls for private initiative projects, and (9) lack of reconciliation of portable certificates and vouchers.

Within 60 days, please provide us a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to this audit.

If you have any questions, please contact our office at (617) 565-5259.



Executive Summary

We performed an audit of the Low-Income Housing Program and Section 8 Program operated by the Housing Authority of the City of Bridgeport. Our objectives were to determine if the Authority was operating its program in an efficient, effective and economical manner; and was complying with the terms and conditions of its Annual Contributions Contract, applicable laws, and HUD regulations.

Our audit disclosed that the Authority did not operate in an efficient, effective and economical manner; and did not always comply with the terms of its Annual Contributions Contract and HUD regulations. In each area reviewed (occupancy, procurement, obtaining replacement units, and internal control) we found substantial deficiencies in the Authority's operations that had existed for a number of years.

Audit Results

Specifically, our audit disclosed:

- The Authority received \$750,000 of excess operating subsidies and incurred \$300,000 of unnecessary utility expenses for units that have been vacant for four years. Management negligence resulted in many of these vacant units being severely damaged by vandalism, water and avian infestation.
- Poor management of a duplex development project resulted in a \$2.5 million loss of Federal Low-Income Housing funds. The Authority used \$2.5 million of Low-Income Public Housing operating funds to complete a non-profit development which was not financially sound. Federal regulations prohibit the use of Low-Income Public Housing operating funds for development purposes. In addition, 3 duplexes were sold to families who did not qualify for housing assistance, as their incomes exceeded HUD income limits. Also, the Authority has not verified that the families living in the rental unit of each duplex meet HUD low-income requirements in 12 of 21 cases.
- A consistently high vacancy rate for Low-Income Public Housing units. Despite a waiting list of 1,900 families, the vacancy rate has averaged 11 percent for fiscal years 1997 through 1999. The vacancy rate at February 8, 2000 was 13 percent. The Authority's failure to reduce vacancies resulted in a

loss of opportunity for low-income families to obtain affordable housing and reduced rental income to the Authority by \$1 million. In addition, HUD provided the Authority approximately \$2.5 in operating subsidies for these vacant units during fiscal years 1997, 1998, and 1999.

- Ineffective procurement practices which include: payment for services without a contract; selecting contractors without competition; awarding contracts with inadequate competition; unsupported sole source contracts; contracts with unclear terms, and awarding contracts to the high bidder without proper documentation.
- The Authority failed to meet the time schedule on a court-ordered directive to replace 1,063 demolished Father Panik Village Low-Income Housing units. The \$89 million replacement effort started in 1987 and was less than half completed at February 29, 2000. An outside developer hired in 1996 to speed up the replacement effort has produced only 20 units in three years at a cost of \$1.8 million and is now suing the Authority for \$1.3 million for additional services.
- A consistently low utilization rate for Section 8 vouchers and certificates. The utilization rate averaged 89 percent for fiscal years 1997, 1998, and 1999. The utilization rate at February 29, 2000 was 88 percent despite a waiting list of 2,600 families. A utilization rate of under 95 percent is considered a failing indicator by HUD. A low utilization rate reduces affordable housing opportunities for low-income families.
- Failure to follow HUD billing procedures resulted in \$34,699 of duplicate billing to HUD for Section 8 administrative fees.
- Internal control weaknesses resulted in HUD subsidizing the Authority's private business ventures and a circumvention of the Authority's normal business practices.

- Reconciliation of portable vouchers and certificates is not performed timely. Therefore, the Authority does not know if \$307,555 listed as accounts receivable from other housing authorities is accurate.

The Authority Disagrees

Authority officials disagreed with our conclusion that the Authority had not been operated effectively. The Authority believed it was operating effectively based on favorable yearly evaluations received from HUD and the fact that it had increased its operating reserves to a total of \$6 million at September 30, 1999.

Authority rated a Standard Performer

HUD provides its housing authorities an evaluation on a yearly basis using its Public Housing Management Assessment Program (PHMAP). Based on housing authority financial and performance data input into the PHMAP, HUD derives a rating between 1 and 100. A housing authority is considered a standard performer if it receives a score between 60 and 90. The Authority received PHMAP scores in the mid 80s for fiscal year 1996 and in the mid 70s range for fiscal years 1997 and 1998.

Budgets Consistently Under Run

The Authority significantly increased its operating reserves during the last three years, but it accomplished the increase by under running budgeted expenditures for personnel and supplies rather than by operating efficiently. Authority records indicate that for fiscal years 1997 through 1999, actual costs were approximately \$4.1 million (10 percent) under budgeted costs of \$41 million. We believe that, based on discussions with Authority officials, who cited a lack of resources as a problem, this consistent reduction in expenditures was the major cause of several of the deficiencies noted above.

Management Lacks Capability

Authority officials were aware that significant weaknesses existed for a number of years, but lacked the capacity to implement effective corrective action. We attribute this condition to poor management practices and a lack of effective leadership. We are recommending that you apply administrative sanctions against appropriate Authority officials.

The Authority's Board of Commissioners is ultimately responsible for allowing the deficiencies to continue. The

Board is responsible for assuring that the Executive Director is managing the programs effectively, efficiently, and economically. The Board should be held accountable for improving the Authority's operations.

Recommendations

We have provided specific recommendations to assist in correcting the reported deficiencies. Authority management must change its focus from increasing its operating reserves and obtaining additional business to providing needed services to its existing clients -- the residents. Unit vacancies must be reduced and utilization of Section 8 vouchers and certificates must be improved. A realistic plan to complete replacement of Father Panik units must be developed, implemented and monitored as to progress. Finally, internal controls over procurement and accounting must be followed to assure that assets are protected.

Findings and
Recommendations
Discussed

The findings were discussed with the Authority during the course of the audit. On April 6, 2000, we provided the Authority a draft audit report for comments. We received the Authority's comments on June 1, 2000. We have included pertinent comments from the Authority's response in the findings section of the report. Due to its voluminous content, the Authority's entire response was forwarded to program staff under a separate letter. Pertinent excerpts are included in Appendix C.

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Abbreviations

ACC	Annual Contributions Contract
Authority	Housing Authority of the city of Bridgeport
CCH	Creative Choice Homes
CFR	Code of Federal Regulations
CLS	Connecticut Legal Services
HUD	Department of Housing and Urban Development
HA	Housing Authority
IPA	Independent Public Accountant
IRS	Internal Revenue Service
MOA	Memorandum of Agreement
OMB	Office of Management and Budget
PHMAP	Public Housing Management Assessment Program
RBV	Requested Budget Year
SEMAP	Section 8 Management Assessment Program
UMA	Unit Months Available

Introduction

The Housing Authority of the City of Bridgeport, Connecticut (Authority) is responsible for oversight and management of 2,503 low-income public housing units and 2,475 Section 8 units. The Authority has 6 family developments, 4 elderly developments, and 23 scattered site developments. The Authority is governed by a five member Board of Commissioners chaired by Carlos Garcia.

The Executive Director, Collin Vice is responsible for administering the daily operations of the Authority. The administrative offices are located at 150 Highland Avenue, Bridgeport, Connecticut. The accounting records are maintained under the direction of Olive Harbor, Director of Finance.

The public housing program was enacted by the United States Housing Act to provide decent, safe, and sanitary housing for elderly and low-income families. The Federal government enters into Annual Contributions Contracts (ACCs) with local housing authorities. Housing authorities are responsible for owning and operating public housing for the benefit of low-income residents.

Audit Objectives

Our overall audit objective was to determine if the Authority is operating in an efficient and effective manner. Specific audit objectives were to determine whether the Authority is:

- Using its resources and managing its programs and operations efficiently, effectively, and economically;
- Complying with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives;
- Replacing units demolished at Father Panik Village in a timely manner; and
- Adequately controlling their private initiative projects.

Audit Scope and Methodology

To accomplish our objectives, we:

- Reviewed Federal requirements including Code of Federal Regulations, HUD Handbooks, Public and Indian Housing Notices and Directives, and the Authority's organizational and administrative structure, administrative plans and personnel policies, and recorded minutes of the Board of Commissioners meetings.

- Reviewed Independent Public Accountant (IPA) audit reports, as well as monitoring reviews conducted by the HUD Field Office.
- Interviewed the Authority's current and former Executive Directors and applicable staff, staff from the Connecticut State Office, Office of Public and Indian Housing in Boston, Massachusetts, and representatives of Creative Choice Homes, Inc. (Preferred Developer for the replacement of the Father Panik Village units) and Connecticut Legal Services.
- Examined the Authority's accounting books and records.
- Examined the Authority's procedures and supporting documentation for: procurement; leasing of units; vacancies; calculating operating subsidies; Section 8 leasing of units and calculation of administrative fees; replacement of units at Father Panik Village; and development of 21 duplexes, known as Pembroke Green.
- Reviewed the Office of Public and Indian Housing's files maintained by the Connecticut State Office pertaining to the Authority.

Audit Period

Audit work was performed between June 1999 and March 2000 and covered the period October 1, 1997 through September 30, 1999. When appropriate, the review was extended to include other periods.

The audit was conducted in accordance with generally accepted government auditing standards.

Authority Received \$750,000 in Excess Operating Subsidies and Paid Over \$300,000 In Utility Cost For Vacant Units

The Authority received \$750,714 of excessive operating subsidies for 82 vacant units at Trumbull Gardens, Project Number CT26-P001-044. The Authority vacated the units without receiving required approvals from HUD which is a violation of its ACC. These units were vacant from three to four years. In addition, the Authority paid unnecessary utility costs of \$325,054 for the vacated units. Due to management negligence, Building 10 of the project (64 of the 82 vacant units) has been severely damaged by vandalism; water leaks, and avian infestation and is not habitable.

Excessive Operating Subsidy Paid

The Authority did not follow the HUD requirements for calculating the operating subsidy regarding the Trumbull Gardens long-term vacant units. The instructions for completing HUD Form 52723, Calculation of Performance Funding System Operating Subsidy require the Authority to remove long term vacant units from the operating subsidy calculation. The instructions state: Units Months Available are calculated by taking the product of Project Units multiplied by the number of months the units will be available for occupancy during the subject fiscal year. A unit will be considered a long term vacancy and will not be considered available for occupancy in any given Housing Authority (HA) Requested Budget Year if the HA determines that the unit has been vacant for more than 12 months at the time the HA determines its Actual Occupancy Percentage.

Based on the above instructions, we calculate that the Authority received excess operating subsidies totaling \$750,714 for Fiscal Years 1996 to 1999 (October 1, 1996 to September 30, 1999); (\$603,309 for 64 units in Building 10 and \$147,405 for 18 units in Building 11.) The amounts by year follow:

Building Nos.	No. of Units	FY 1996	FY 1997	FY 1998	FY 1999	Total
Building 10	64	\$20,377	\$ 93,309	\$244,739	\$244,884	\$603,309
Building 11	18	0	\$ 27,215	\$ 51,316	\$ 68,874	\$147,405
Total	82	\$20,377	\$120,524	\$296,055	\$313,758	\$750, 714

Authority Instructed to Submit proposal in May 1995

In February and March 1995, the Authority, by letter, requested HUD approval for use of Father Panik Village replacement funds to convert Building 10 and 11 of its Trumbull Gardens property into elderly housing. In its response dated May 25, 1995, HUD directed the Authority to submit a proposal for HUD evaluation.

Decision to Vacate Not in Accordance with ACCs

In late 1995, the Authority stopped offering vacant units in Building 10 and 11 to prospective tenants. Non-elderly tenants of Building 10 were required to relocate to other low-income properties operated by the Authority. Elderly tenants in Building 10 were relocated to Building 11. The Authority did not notify HUD of its decision to vacate Building 10 until after the units were vacated, which is a violation of its ACC contract with HUD. Section 4 of the Authority's ACC agreement with HUD states that, "The HA shall at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects..." Vacating serviceable units without a HUD approved plan in place does not promote economy, efficiency, and stability of the project.

By April 16, 1996, all 64 units in Building 10 were vacant and the 18 units in Building 11 were vacant by March 12, 1997. The 82 units have remained vacant since March 1997. In addition, for Fiscal Year 2000, there are an additional 9 units that became long-term vacancies for Fiscal Year 2000 in Building 11.

Decision to Vacate Based on High-Crime Rate at Building 10

The Authority's Executive Director stated that because of uncontrollable crime problems, the Authority decided to vacate Building 10. The Executive Director stated that it was the Authority's belief that conversion of Buildings 10 and 11 to elderly housing would solve the crime problem. It was the Authority's intention to have Building 10 vacated so that conversion effort could proceed immediately upon HUD approval of the conversion proposal. Once the conversion of Building 10 was complete, tenants of Building 11 would be transferred to Building 10 and conversion of Building 11 would commence. Prospective tenants were not offered Building 11 vacant units as it was believed that tenants in Building 11 would have to relocate in the near

future. The Executive Director stated that the Authority believed that HUD would approve the conversion proposal.

HUD Has Not Approved Conversion Proposals

The Authority submitted a written proposal to HUD on May 14, 1996, for the conversion of Buildings 10 and 11 to elderly housing. The Authority did not receive HUD's approval. On March 17, 1999, the Authority submitted a new proposal to HUD to convert Buildings 10 and 11 to elderly housing with congregate care facilities. The March 17, 1999 proposal is currently under review by HUD.

Subsidy Calculation

In April 1999, the Authority agreed to remove the 64 units in Building 10 from its calculation of operating subsidy for Fiscal Year 2000. The Authority's Finance Director stated that HUD directed the Authority to remove the units. For Building 11, the Authority did not remove the 27 long-term vacancies from its calculation of operating subsidy for fiscal year 2000. We calculate that the operating subsidy on the 27 units in Building 11 would be \$104,477 for Fiscal Year 2000. The 27 units should be removed from the operating subsidy calculation. There are additional vacant units in Trumbull Gardens and other Authority properties which will become ineligible for inclusion in the operating subsidy calculation for Fiscal year 2001, if they remain vacant. The Authority should develop and implement policies and procedures to remove long-term vacant units from future subsidy calculation.

Building 10 Is Not Habitable

Our physical inspection of Building 10 disclosed severe damage caused by vandalism, water leaks, and avian infestation. Because of this damage, Building 10 is not habitable. All lighting and electrical items have been broken or torn-out in the common areas of the building. Many of the doors leading to apartments are broken and are no longer serviceable. There were broken windows and holes in the walls of the common areas that allowed birds and water to enter the building. There was graffiti on every wall and ceiling in the common areas. The Authority had removed appliances from 58 of the 60 units we inspected. There were dead birds and a significant amount of bird droppings in the common areas and units that indicated the problem had existed for a significant amount of time. The Trumbull Garden's Maintenance Foreman (Foreman), who participated in the inspection, stated that he did not know

how long the problems had existed because inspections of the building were not performed.

Out of 60 units we inspected, 47 had deteriorating walls and 28 floors had water damage from leaking pipes. In 5 of the units, there was standing water on the floor indicating that the pipes were currently leaking. We found bird droppings and/or dead birds in 21 of the units inspected. In addition, our inspection disclosed that the steam heating radiators were left on at a high setting in the units. The temperature in most of the units ranged from 85 to 100 degrees even though many of the windows were not completely closed or were broken. We asked the Foreman why the heat was left on at a high setting in a vacant building and he said to prevent the pipes from freezing. We asked him why wasn't the water drained from the system to prevent freezing rather than incurring the expense of heating and he said he didn't know how to drain the pipes. He also advised us that drains in Building 10 and 11 had existed at one time but had been removed when the Buildings were last renovated; therefore, he had no means to drain the pipes.

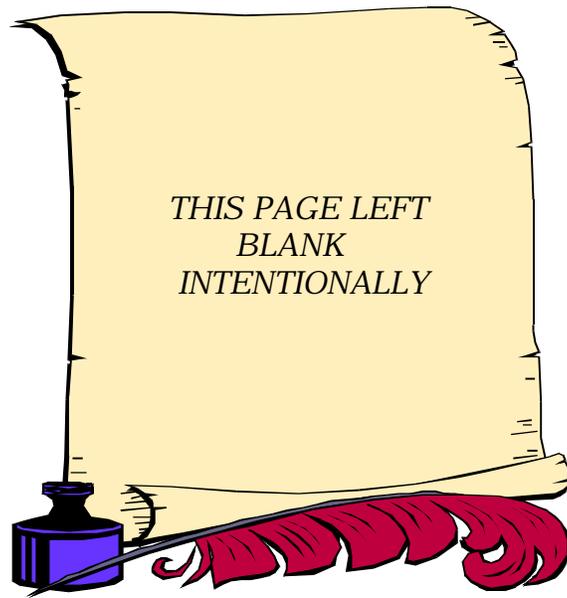
The following pictures depict the condition of Building 10

Dead Pigeons - Unit 707



Pigeon Droppings - Unit 802



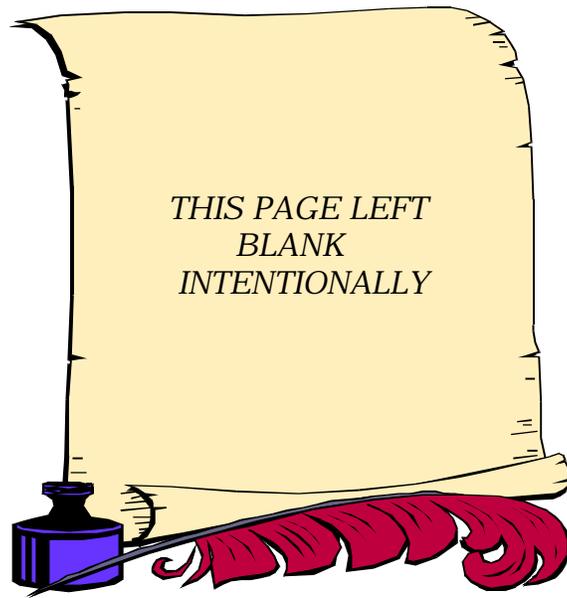


Live Pigeons - Unit 405



*Water Damage - Living Room
(Standing Water) - Unit 203*





Deteriorated Wall and Damaged Floor - Unit 705

Periodic inspections of Building 10 by the Authority would have detected the above conditions and the Authority could have taken steps to prevent or limit the damage.

Unnecessary Utility Costs

For the period April 1, 1996 to February 11, 2000, the Authority incurred unnecessary utility costs of approximately \$325,000 for vacant units in Buildings 10 and 11. These unnecessary charges were for natural gas, electricity, and water in Building 10 and natural gas in Building 11.

Natural Gas

As discussed above, during our physical inspection of Building 10, we noted that the heat was on in the units and the temperature in many of the units was between 85 and 100 degrees. We also physically inspected vacant units in Building 11 and found that the heat was on and the windows were not fully closed in all cases. We believe that having the heat on in vacant units is a waste of resources and should be stopped. We estimate that heating the vacant units cost the Authority approximately \$255,000 for the period of May 1996 through December 1999.

Natural gas is used to heat a boiler that turns water into steam. The steam is circulated through pipes to Building 10 and 11, and a project administrative building. There is one gas meter for all three buildings. Most of the 82 vacant units in Building 10 and 11 were vacant from April 1996 forward, a significant reduction in natural gas usage from prior periods would be expected (64 percent). However, our review indicated that the natural gas usage on the one meter remained relatively consistent during the past five years which supports our belief that the heat was left on in the vacant units in each of the last four years. The total charges for natural gas usage on the one meter were \$419,903 from April 1996 to December 1999. Based on the size of the administrative building relative to Buildings 10 and 11, we estimate that 5 percent of natural gas usage was for the administration building or \$20,995 (\$419,903 times .05). We calculate that \$255,301 (64 percent) of the remaining \$398,908 was wasted based on the percentage of vacant units in Buildings 10 and 11.

Electricity

From April 1996 to December 31, 1999, the Authority incurred unnecessary electrical costs of \$54,320 for vacated Building 10. Building 10 has an electricity meter in each of the 64 units and a master meter. The master meter controls lights and electrical equipment in the Building's hallways and common areas. Invoices submitted by the Utility Company from April 1996 forward included a basic service charges of \$9.50 monthly per unit and \$39 monthly for the master meter. The Utility Company told us there was no charge for discontinuing or reconnecting service to any of the 64 units or the master meter. Had the Authority discontinued service to Building 10 in April 1996, it could have avoided service charges of \$29,315. In addition to the service charges, the Authority was billed \$25,005 for electricity usage on its master meter. As discussed above, our physical inspection of Building 10 disclosed that there were few functioning lights and no functioning electrical equipment in areas the master meter services. We discussed the issue with the Foreman who agreed that there was nothing electrical operating in areas served by the master meter. He stated that he had been unaware of the charges related to the master meter and believed that the charges were incorrect as nothing was in operation. We believe that the Authority should discuss the matter with the Utility

Company and determine if it was charged the \$25,005 in error or if something electrical is in use in the common areas of the building.

Water Bills

As discussed above, Building 10 was completely vacated by April 1996. Since April 1996, the Authority received and paid invoices for water usage at Building 10 totaling \$23,089. The invoices indicate water usage of 38,357 gallons. The Foreman stated that the only place water was in use was in the rest rooms of the community meeting room located on the first floor of Building 10. He indicated that the room was only used several times a month and that not much water was used.

We believe the water use in Building 10 resulted from leaks in the water pipes as evidenced by our physical inspection of the units, discussed above. The Authority should have shut off the water to Building 10 when the Building became vacant or when it received invoices showing significant amounts of water usage. Discussion with the City of Bridgeport Water Department indicated that there is a basic service charge of \$44 to turn off the water to Building 10 and an annual water system connection charge of \$1,914 or \$7,656 for four years. If the Authority had turned off the water to Building 10 in April 1996, it would have prevented the water leaks and reduced costs by \$15,433 (\$23,089 - \$7,656).

Management Lacks Capability

The above facts demonstrate that Authority officials are not meeting the requirements of its ACC agreement with HUD to provide decent, safe, and sanitary housing to low-income families. Eighty-two units of public housing were taken off-line despite the fact that HUD approval had not been obtained and the Authority had no assurance that HUD approval would ever be obtained. These units were not available to low-income families for the past four years and have now been damaged through negligence to the point it might not be cost effective to bring the units back on-line. Incurring hundreds of thousand of dollars of utility expenses for vacant units shows a lack of management capability. Authority officials must be held accountable for their poor management.

Auditee Comments

The Authority agreed that long-term vacancies should have been excluded from Performance Funding System calculation for Fiscal Year 1996 through 1999. However, they did not agree with the excess subsidy of \$750,714. The Authority attached a vacancy rule (PIH 96-35) which entitles the public housing authority to 20 percent of the Allowable Expense Level and utility costs. The Authority estimated that the excess subsidy was between \$200,000 and \$300,00 and in accordance with “The Vacancy rule” that amount should not be returned to HUD either, since the units were vacant due to circumstances beyond their control because of an uncontrollable crime problem. The Authority agreed to implement policies and procedures and to adjust for long-term vacant units in the future.

The Authority stated that heat to Building 10 could not be localized and therefore, the entire building was heated to provide heat to a room in the basement used for meetings of the WIC program and the Girl Scouts of America. The Authority indicated that upon completion of their new community center the programs were transferred. The Authority advised that all the broken windows in Building 10 were repaired to prevent birds from entering and the heat could not be turned off in Building 11 since over half of the units are occupied.

The Authority advised that they would be submitting a request to HUD’s Special Application Center to designate Building 11 for the elderly. The Authority stated that Building 10 would be rehabilitated into low to moderate-income cooperative housing and that discussions with HUD had taken place.

**OIG Evaluation of
Auditee Comments**

We disagree that the Authority is entitled to a reduced subsidy. As discussed in the finding, the Authority violated Section IV of its ACC's by removing the units from availability (deprogramming) without HUD approval. The notice referred to by the Authority does not apply to units that have deprogrammed. HUD does not include deprogrammed units in the subsidy calculation formula. Therefore, there is no subsidy entitlement.

We also disagree with the Authority's conclusion that the vacancies were also due to circumstances beyond their control because of an uncontrollable crime problem. In the authority's May 1996 proposal to HUD to convert Building 10 to elderly housing, the Authority indicated a difficulty in leasing units due to a high degree of vandalism caused by youngsters living in the building or visitors to the building.

The Authority should have taken steps to stop the vandalism rather than vacating the building without HUD approval. In addition, Building 10 and 11 are identical buildings located adjacent to each other. Our inspection of Building 11 did not show a high level of vandalism. If the Authority was controlling vandalism in Building 11, then it should have been able to control it in Building 10

We believe the Authority's decision to heat the entire Building (10) to provide a room in the basement for a few meetings a month demonstrates the poor management practices used by the Authority. Spending \$325,000 on utilities to provide space for infrequent meetings is not prudent business practice. Further, although the Authority indicated the programs using Building 10 were transferred upon completion of the new community center, on June 23, 1999, the heat was on when we inspected the building in February 2000. As we noted above, many of the units were heated to above 90 degrees.

We agree that the heat should not be turned off in Building 11. We should have said turned down the heat in the vacant units, since most of them had excessive heat.

Recommendations

We recommend that you require the Authority to:

- 1A. Reimburse HUD \$750,714 of excess operating subsidy.
- 1B. Adjust its fiscal year 2000 Calculation of Performance Funding System Operating Subsidy to reflect long-term vacant units at Building 11.
- 1C. Implement policies and procedures to track long-term vacant units and remove such from the subsidy calculation.
- 1D. Turn off the utilities in Building 10. Drains should be installed so water can be drained from the pipes in Building 10.
- 1E. Verify that broken windows were repaired so birds cannot enter Building 10.
- 1F. Reduce the heat and completely shut the windows in Building 11 vacant units.
- 1G. Develop a plan for the use of Buildings 10 and 11.

Poor Management Resulted in Inappropriate Use Of \$2.5 Million In Low-Income Operating Funds

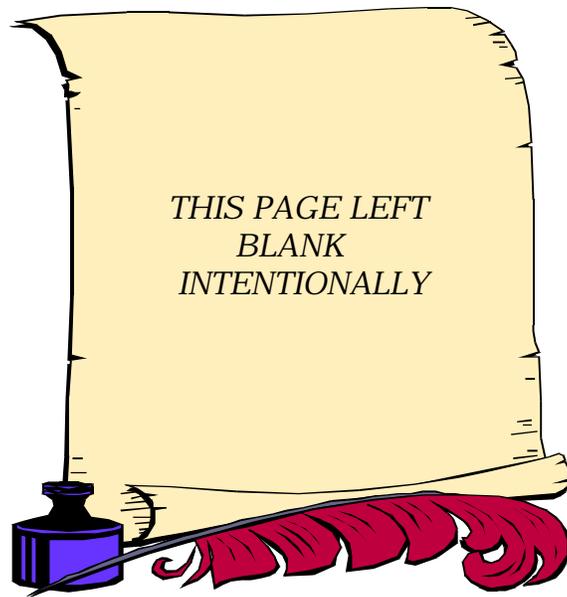
In 1997, the Authority committed itself to a multimillion dollar duplex development project to provide home ownership opportunities to low-income families. The commitment was made without a contract in place; without appropriate disclosures to and approvals from the Board of Commissioners; without a definite source of funding, without an understanding of the potential contract cost, and without an understanding of what amount the duplexes would be worth. The Authority did accomplish its goal of constructing 21 duplexes. However, what was originally proposed as a project that would not require the use of Authority funds turned into a loss that required the Authority to use \$2.5 million of its low-income public housing operating funds to complete the development. Federal regulations prohibit the use of low-income operating funds for development purposes. In addition, 3 of the duplexes were sold to families whose income exceeded HUD guidelines. Also, in 12 of 21 cases, the Authority cannot demonstrate that eligible tenants were placed in the rental portion of the duplexes.

HUD Regulations

Section 4 of the Authority's ACC agreement with HUD states that "The HA shall at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects...". As discussed below, the development was neither economical nor efficient, and eligible families who were not qualified received benefits.

Use of Low-Income Funds is Prohibited

The use of low-income operating funds for development purposes is prohibited by Federal Regulations. The United States Housing Act of 1937 as revised through December 31, 1994, provides a clear separation between expenditures for development or acquisition cost of the lower income projects and the operation of such projects. Section 9(a)(1)(A) of the United States Housing Act of 1937 states that: "In addition to the contributions authorized to be made for the purposes specified in Section 5 of this Act, the Secretary may make annual contributions to public housing agencies for the operation of low-income housing projects...". Section 5(a)(1) of the Act provides annual contributions to public housing agencies to finance the development or acquisition cost of low-income housing. The Authority is required to use its low-income operating



funds, including reserves, to benefit the tenants of existing projects, not develop new projects.

Home Ownership Was the Goal

The development project was proposed to the Authority in September 1993 by Fairfield 2000 Homes Corporation (Fairfield), a nonprofit development corporation. As originally conceived, Fairfield would manage the project and the Authority's only responsibility was to provide 5 acres of Father Panik Village land to Fairfield to accommodate the constructing of 21 duplexes (their original proposal was for 309 units). The duplexes were to be sold to low-income families who would live in one unit of the duplex and rent the other unit to low-income families who would receive Section 8 assistance. Project costs were estimated to be \$3.9 million in September 1996. Funding was to be provided by the State of Connecticut for site development and bank mortgage loans to low-income families to purchase the duplexes. Fairfield provided the Authority a cost and revenue estimate that projected construction costs and sales at \$141,700 per duplex not including a projection of \$879,000 from the state. Below is a typical picture of one of the duplexes.

Pembroke Green



Value Over-estimated

On April 17, 1997, Fairfield sent the Authority a letter stating that the duplexes had been appraised at \$91,000 to \$92,000. The letter indicated that the projected sales price had been \$145,000. On May 5, 1997, Fairfield sent the Authority another letter stating that estimated construction costs had increased by \$500,000 and that the Authority would have to provide approximately \$1,579,000 to

complete the project. There was no explanation why the value of the duplexes had been over-estimated and the cost of construction had been under-estimated. The Authority was under no obligation to continue the project but allowed the project to continue.

Contractor Selected
Without Competition

In April, 1997, a contractor was selected to perform site development work based on a competitive bid of \$575,000. Competitive bids were obtained from four contractors for construction of the duplexes. The low bid for construction was \$2,825,000. Fairfield did not accept the low bid. Instead, it selected a contractor that had not originally submitted a competitive bid. The contract price was \$3,700,000 to provide modular structures which is approximately \$1,000,000 more than the low bid which was for conventional construction.

Provisional Approval
Received

The Board of Commissioner's minutes for July 14, 1997 show that the Board adopted a resolution to jointly develop the Pembroke site with Fairfield. The resolution required that final commitments from HUD (for a \$1.5 million development grant) and from a bank (for a \$1,685,555 construction loan) be in place to meet project requirements before construction can proceed.

The minutes of Board of Commissioner's July 14, 1997 meeting discusses the Authority using \$1.5 million of Authority funds, however, the use of Authority funds were not included in the Board Resolution.

It is apparent that the Authority neglected to tell the Board that construction had already started. Authority records indicate that construction had already started. A letter from Fairfield dated July 10, 1997 stated that construction was underway, 4 days prior to the Board's resolution requiring commitments from HUD and a bank before construction could start.

Construction Continues
Despite Funding denials

On July 23, 1997, HUD notified the Authority by letter that its request for funding the development could not be approved as submitted and that if the Authority wished to pursue the matter further, it should submit a revised request to conform with development regulations. The Authority could provide no evidence that it submitted a revised request to HUD or that it notified the Board of

Commissioner's that approval had not been obtained. Bank financing was never obtained and there is no record that the Board was notified of the problem. Construction was not halted and the Authority's financial liability continued to increase. A contract with Fairfield was not signed until June 1998.

The Board of
Commissioners Did Not
Perform Due Diligence

Our reading of the Board of Commissioner's minutes indicates that the Board did not follow-up on its requirement that construction not start until funding was obtained. Problems with the Board's actions or lack of actions include:

- There was no evidence that the Board ever asked to see the proposed contract with Fairfield or asked to review the signed contract.
- The Board did not request a legal opinion regarding the release of Fairfield from financial responsibility nor did it request a legal review of the contract with Fairfield. In addition, a legal opinion on Fairfield's subcontracts valued at approximately \$4.5 million was not obtained.
- There was no evidence that the Board evaluated the cost reasonableness of the project. Each duplex cost approximately \$236,000 and the appraised value was estimated at \$92,000.
- The Board never adopted a resolution to approve the use of low-income operating funds on the development.
- The Board never adopted a resolution to proceed with construction.
- There was no evidence that the Board required the Authority to justify why construction was proceeding without funding in place.

The Authority did not provide the Board with all the information necessary to make an informed decision. The Board might not have released Fairfield from its financial obligations had it been notified at an early date that 1) funding was not available and 2) the Authority would have to use \$2.3 million of its own funds to complete construction, in violation of Federal regulations. However,

even though it lacked information, the Board still had a fiduciary responsibility to fully understand and oversee the development process which it failed to do.

Delay in Negotiating Contract

The Authority did not enter into a contract agreement with Fairfield until June 1998, a year after construction had started. The Authority was paying invoices submitted by contractor's on Fairfield's behalf up to six months prior to signing a contract. These actions are contrary to HUD regulations and the Authority's policies and procedures. Finding 4 of this report, discusses the Authority's procurement practices in greater detail.

Information Withheld

As late as August 1999, the Board was not made aware how much the project was going to cost the Authority. The Board of Commissioner's minutes for August 9, 1999 include comments by the Authority's Executive Director regarding costs on the development. In response to a commissioner's question the Executive Director stated that "...we had to subsidize it and the board approved \$1.3 million in terms of gap financing. We will not recover this amount, but we will get some of the money which will be put back in the reserve" This statement to the Board by the Executive Director is not consistent with the facts. In August 1999, the Authority had spent \$2.2 of its funds on the project and additional outside funding was not available.

Three months later, the Executive Director told the Board that an additional \$1 million of Authority funding, over and above the \$1.5 million previously approved by the Board, was now required. The Board minutes for the November 8, 1999 meeting indicate that the Executive Director told the Board that cost overruns generated the need for the additional funds. There was approximately \$250,000 of cost overruns the Authority was responsible for, not \$1 million as the Executive Director indicated to the Board, but as discussed above, it had been apparent for several years that there was a total shortfall of \$2.2 million based on existing contracts and revenue projections.

Commissioner's Comments

The Chairman of the Board of Commissioners indicated he was shocked by the Executive Director's request for an addition \$1 million to cover cost overruns. He stated that he told the Executive Director not to pay the contractors for

the cost overruns because the overruns could not possibly be justified, but she had stated that the contractors must be paid. The Chairman stated that the Board had reluctantly approved the use of additional Authority funds based on the Executive Director's assertions.

Again, the Executive Director provided the Board incorrect information. The contractors were reimbursed for a majority of the costs at the time she submitted her request for additional funds to the Board.

Ineligible Homeowners

Our review of the records related to the sale of the duplexes disclosed that 3 of the 21 families who purchased the homes did not meet Low-Income Program requirements. The stated purpose of the project was to provide home ownership opportunities to low-income families. Providing opportunities to non-qualified families is not in compliance with the Authority's ACC agreement with HUD to provide housing opportunities to eligible families. Authority officials stated that a sufficient number of low-income families who qualified for bank loans could not be found. Therefore, 3 families from the general public, who did not meet income requirements were selected to purchase the duplexes. Not counting land value, the duplexes cost over \$236,000 each to develop. The 3 non-qualified families purchased their duplexes for \$92,000 each. Therefore, the Authority provided at least \$144,000 of subsidy to each of the three families or a total of \$432,000.

Eligibility Not Verified

The contracts with the families who purchased the duplexes requires them to rent one of the duplex units to Section 8 low-income families referred by the Authority. We noted that only 9 of the 21 duplexes had Section 8 families assigned. The Authority had no record of who was living in the remaining 12 rental units. In addition, the Authority had no plan in place to annually verify tenant income or conduct yearly inspection of the rental units. The Section 8 administrator for the Authority stated that persons living in the 12 rental units were probably relatives or friends of the families that purchased the homes so verification was not performed.

The Authority has failed to assure that its goal of providing rental housing assistance to qualified low-income families has been accomplished. The Authority should determine if the families living in the 12 units meet low-income

Management Must Be Accountable

requirements of the Section 8 program. In addition, the Authority should develop a plan to annually verify income and inspect the rental units.

As shown above, Authority management failed to operate in accordance with its ACCs, Federal Regulations, and its own policies and procedures. This project became unfeasible when the appraised sales value of the duplexes dropped and the construction costs significantly increased. The Authority could have ended its involvement in the project when it became not feasible. Management must be held accountable for their actions which resulted in the unnecessary use of \$2.5 million of Public Housing low-income operating funds for development which is an unallowable purpose.

Auditee Comments

The Authority did not consider the use of the Authority funds to build homes to be inappropriate. The Authority agreed that the project cost more than was originally anticipated and advised that the total cost to the Authority will be \$2.4 million of which \$1.6 million was approved by the Commissioners and also by HUD in the operating budget. The Authority indicated that the balance of \$800,000 was subsequently approved by the Commissioners and will be paid from the administrative fees earned from administering the Section 8 programs.

OIG Evaluation of Auditee Comments

The Authority did not address the two main conditions cited in this finding: 1) The Authority committed itself to a development project without: a contract in place to build the project; a definite source of funding; an understanding of the potential contract cost; and an understanding of what amount the duplexes would be worth, and 2) Federal regulations prohibit the use of low-income operating funds for development purposes.

The Board of Commissioner's minutes for November 25, 1997 includes comments from the prior Executive Directors stating, "We are putting \$1.5 million gap financing on this project from the Authority to bring it into an affordable posture. This is a worth while venture; it is going to be our first home-ownership opportunity. Hopefully, in the future, we will be able to do another one that is financially feasible.

If the Authority had determined the cost to construct the project and the potential sales prices of the duplexes prior to construction, they would have known the project was not feasible.

Recommendations

We recommend that you:

- 2A. Require the Authority to implement controls to fully inform the Board of Commissioners on the financial status of on-going construction contracts.
- 2B. Require that the Authority obtain your approval to use Low-Income Operating funds prior to making commitments.
- 2C. Impose appropriate administrative sanctions against persons responsible for the misuse of low-income operating funds.



The Authority Needs to Reduce High Vacancy Rate

The Authority has not prepared vacated units for low-income tenant occupancy on a timely basis. There were 347 vacant units out of 2,503 low-income housing units, or 14 percent, as of October 1, 1999, even though the Authority had a waiting list of approximately 1,900 applicants. The units had been vacant an average of 404 days. Authority management has been unable to correct the problem as evidenced by the fact that the vacancy rate has been increasing every year since 1996. The Authority's failure to fill vacant units on a timely basis resulted in a lack of housing availability for low-income families and lost rental income of approximately \$1,000,000 for fiscal years 1997, 1998, and 1999. In addition, HUD provided the Authority approximately \$2.5 million in subsidies on the vacant units during the three year time period.

Vacant Units Should be Kept to a Minimum

HUD regulations require Public Housing Authorities to keep vacated units to a minimum to provide greater housing opportunities for low-income families. The Annual Contributions Contract, Part A, Section 4, requires the PHA to manage its projects to promote economy, efficiency, and stability.

High Vacancy Rate a Continuing Problem

Our review of the Authority's monthly Vacancy Control Reports and Secretary's Reports indicates that a high vacancy rate has been a continuing problem at the Authority since the beginning of fiscal year 1997. The number of vacancies has steadily increased. The vacancy rate at the beginning of each fiscal year were as follows:

	Number of Vacant Units	Total Number of Units	Vacancy Rate
October 1996	122	2,588	5%
October 1997	184	2,385	8%
October 1998	299	2,431	12%
October 1999	347	2,503	14%

These figures do not include the 64 units at Trumbull Gardens High-rise Building 10, which have been vacant since April 16, 1996 (See Finding Number 1). Fourteen percent, or 347 of 2,503 low-income public housing units at the Authority were vacant as of October 1, 1999. These 347 vacant units remained vacant an average of 404 days. See Appendix B for the vacancy rate and the average number of days that these 347 units remained vacant within each project.

The Authority's failure to occupy these vacant units in a timely manner hinders its primary mission of providing decent, safe, and sanitary housing to low-income families. Based on Authority data, we calculated that the Authority lost approximately \$1,000,000 of rental income from October 1996 to September 1999 as a result of vacant units. In addition, HUD provided the Authority operating subsidies of \$2.5 million for these vacant units.

Authority Has Been Unable to Correct Known Problem

The Authority was been aware of the vacancy problem for a number of years through the annual Public Housing Management Assessment Program (PHMAP) scores. However, the Authority was unable to reduce vacancies. In fact, while aware of the problem the vacancy rate has increased from 5% to 14%.

The PHMAP grades for vacancies for FYs 96 through 98 were as follows:

<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>
D	F	D

Maintenance Department Not Meeting its Goal

The Authority's maintenance policy states that it is the Authority's goal to prepare a vacated unit for occupancy within 30 days or less. Authority data indicates that the maintenance department is averaging over 120 days to prepare a unit or four times the stated goal of 30 days or less.

Maintenance Department Has Fallen Behind

The Director of Maintenance stated that when he took his current position in 1999, the maintenance department had not been able to prepare vacant units for occupancy on a timely basis. The Director of Maintenance and the Executive Director advised that in late 1999, contractors were hired to reduce the backlog of unprepared units. The Director of Maintenance stated that once the backlog is reduced, the Maintenance Department should be able to meet its goal of turning around units within 30 days or less, with its current staff. The Executive Director advised that the Authority will be conducting a time and motion study on Maintenance Department efforts to determine if additional staff need to be hired.

Tenant Selection Office
Has Fallen Behind

The Tenant Selection Office does not process a sufficient number of applicants to reduce the backlog of vacant units. Based upon the Authority's Secretary's Reports, between October 1998 and September 1999, there were a total of 376 units vacated at the Authority and only 328 new applicants were placed. The Tenant Selection Coordinator stated the Tenant Selection Office is understaffed and that the Authority should hire an additional two people to increase the number of applicants processed. Currently, the Tenant Selection staff consists of 4 staff members, including the Tenant Selection Coordinator. The Executive Director advised that the Authority will be conducting a time and motion study of the Tenant Selection Office staff to determine if there is a need for additional staff.

In addition, the Executive Director stated that Authority will change its procedures regarding offers to applicants. New applicants will be made one offer only, and the offer will be for a unit in a family development. If the offered unit is rejected, the applicant will be placed on the bottom of the waiting list. Currently, applicants are offered, depending on availability, either a scattered site or family development unit and are allowed up to three rejections prior to being placed at the bottom of the waiting list. Scattered sites units, which applicants and tenants consider to be more desirable housing because of less congestion and crime, will only be offered to good tenants who now occupy units in family or elderly developments. Good tenants being defined as tenants who pay their rent on time, maintain their unit, and are in good standing with the community. The Executive Director believes that the new policy will reduce the number of rejections thereby increasing the number of applicants placed.

Applicants and Tenants
Worried About Crime in
Family Developments

According to the Authority's Executive Director, a major factor in the high vacancy rate is crime. High crime rates at certain family developments cause higher tenant turn over rates and increased rejections by applicants. In an attempt to reduce crime, the Executive Director stated that the Authority had hired two Bridgeport Police Officers to patrol the family developments during the day on an overtime basis. The Executive Director believes that the two officers have not solved the problem and has prepared a proposal to the City of Bridgeport to have full time police presence at its family and elderly sites.

Proposed Actions Need to be Implemented

As discussed above, the Authority recognizes that the high vacancy rate needs to be reduced and is in the process of developing corrective action plans. However, since they have been aware of the problem for a number of years and have been unsuccessful in reducing vacancies, we believe that they need to develop an aggressive plan which will address all of the cited problems, i.e. time it takes the Maintenance Department to prepare a unit for occupancy; need to process more applicants by the Tenant Selection Office; change in Admission Policy to reduce rejections; and steps to reduce crime at family projects.

Auditee Comments

The Authority advised that it recognized the need to reduce the vacancy rate and developed a corrective action plan addressing the four main factors affecting the rate: personnel factor; tenant selection factor; crime factor, and public perception factor. The Authority indicated that they plan to submit monthly progress reports to the Office of Public Housing.

OIG Evaluation of Auditee Comments

HUD should closely monitor the Authority to assure that the corrective action plan will reduce the vacancies in a timely manner.

Recommendations

We recommend that you:

- 3A. Require the Authority to submit their corrective action plan for your staff's review and approval.
- 3B. Require the Authority to submit periodic progress reports on its progress in reducing the number of vacant units.
- 3C. Consider imposing administrative sanctions including removing the vacant units from the subsidy calculation if the high rate of vacancies is not reduced in a reasonable amount of time.

Procurement Practices Are Ineffective

The Authority's procurement practices are not in compliance with HUD regulations and its own procurement policy. The deficiencies include: (1) paying for services without a contract; (2) contractors selected without soliciting competition; (3) contract awarded with inadequate competition; (4) failure to justify sole source contracts; (5) executing contract without having clear understanding of contract terms; and (6) awarded a contract to the high bidder without documentation. These problems occurred because Authority staff did not have a full understanding of procurement procedures. As a result, HUD has no assurances that the Authority's procurement process is fair, equitable, and that the lowest responsive price was obtained.

HUD Requirements

Part A, Section 5 of the Annual Contributions Contract (ACC), requires the Authority to comply with all provisions of the ACC and all applicable regulations issued by HUD. Procurement regulations are contained in the Code of Federal Regulations (24 CFR 85.36). These regulations require the Authority to:

- Conduct all procurement in a manner to provide full and open competition. (24 CFR 85.36(c) (1))
- Maintain sufficient records to show the history of a procurement. The records should include the rationale and justification for the method of procurement, the type of contract, the selection of the contractor, and the basis for the contract price. (24 CFR 85.36 (b)(9))

In addition, HUD Handbook 7460.8 REV-1, paragraph 4-26 (E) states if a housing agency receives fewer than three proposals, the Authority should analyze the proposals and document the reason for the poor response. Depending on the results of the analysis, the Authority may either reject the proposals and issue a revised solicitation or proceed to evaluate the proposals.

Housing Authority's Procurement Policy

The Authority's procurement policy states that contracts are to be in writing, specifying desired services and costs. It also states that for purchases and contracts in excess of \$25,000, the Executive Director or delegate shall use formal advertising methods (unless otherwise justified) and shall solicit bids by advertisement in at least one newspaper of general circulation, or by mailing solicitations to available

service providers. The Authority’s procurement policy dictates that each procurement based on a sole source shall be supported by a written justification for using such procedures. Furthermore, the justification shall be approved in writing by the Contracting Officer. In addition, the reasonableness of the price for all procurements based on noncompetitive proposals shall be determined by performing a cost analysis.

Fourteen Procurements Reviewed

We reviewed 14 of the Authority’s procurements/contracts relating to services. For each of the 14, we identified at least one violation of HUD regulations and/or Authority’s procurement policy as follows:

Vendor	Service	Costs - Note 1	Deficiencies
Columbia Energy Services	Natural Gas	\$ 688,553	2,5
Prindle Leasing Company	Trash Removal	406,086	1, 3
J R Mont Services	Trash Removal	249,602	1, 2
Joseph Siciliano	Legal	194,433	1, 2
Diversified Properties Improvements	Painting	128,060	1, 2
Leroy Moye Painting & Decorating	Painting	25,553	1, 2
Liberty Construction	Painting	118,170	1, 2
Morrison Quality Services	Painting	149,619	1, 2
Bliss Exterminator Company	Pest Control	155,156	1, 2
Connecticut Elevator Company	Elevator	84,265	4
Aeco, Incorporated	Elevator	29,251	4
Thyssen Eastern Elevator	Elevator	159,778	4
Schindler Elevator Corporation	Elevator	42,821	4
Creative Choice Homes, Inc.	Hope VI Application	90,000	6
Totals		\$2,521,347	23

Note 1:

Costs represent either contract amount or actual cost for the period, January 1, 1998 to December 31, 1999, except for Prindle Leasing which represents amount paid without benefit of a contract for period June 1, 1996 to December 31, 1999 and Creative Choice Homes, Inc., who was paid in 1997.

Deficiency Explanations:

1. Paying for services without a contract.
2. Contractors selected without full and open competition.

3. Contract awarded with inadequate competition.
4. Failure to justify sole source contracts.
5. Executing contract without having clear understanding of contract.
6. Contract awarded to high bidder without justification.

No Contracts in Place

We found eight occurrences where no contract existed for services provided. The service providers include: four painting contractors; two trash removal companies; a pest control company; and a provider of legal services. The Authority paid the contractors a total of \$1,350,994 for the period January 1, 1998 through December 31, 1999. Without a contract in place, there is no basis to determine if services provided are in accordance with contract terms or that amounts billed are reasonable. In addition, there is no basis to evaluate and settle legal issues. Not having contracts in place puts the Authority at risk for over billing and inadequate service.

Authority Lacked Resources to Negotiate Contracts

The Chief of Procurement advised that the Authority should have contracts in place for all services but due to time constraints, she had been unable to negotiate contracts. The Authority needs to develop procedures to assure that contracts are in place prior to delivery of services.

Contractors Selected Without Competition

The Authority contracted for services with eight companies (four painting contractors, a pest control company, a trash removal company, a provider legal services, and an energy service company) without using full and open competition. The Authority paid these eight contractors \$1,590,398 during the period January 1, 1998 through December 31, 1999. Without adequate competition, there is no assurance the lowest possible cost was obtained for the services received.

Authority Aware But Chose Not to Act

The Chief of Procurement stated that she was aware that contracts should be competitively awarded but due to time constraints had not been able to develop plans and specifications necessary to solicit proposals. In addition, she stated the Authority had been doing business with the

same contractors for a long period of time and was happy with the services provided and the service rates.

Contract Awarded with
Inadequate Competition

The Authority did not follow proper procedures when it awarded a contract for trash removal to Prindle Leasing Company. Even though the Authority properly advertised the contract for bid, Prindle Leasing Company was the only firm that submitted a bid proposal. When the Authority did not receive an adequate number of proposals, it did not follow required procedures before awarding the contract. The Authority is required to: document the evaluation process; document the reasons why only one firm submitted a bid proposal; justify why it was not necessary to re-bid; or document that they performed a cost or price analysis verifying the reasonableness of the price. Because the above procedures were not performed, there is no assurance that the lowest possible price was obtained for the services received.

Lack of Knowledge Cited

The Chief of Procurement advised that she was not completely knowledgeable regarding all procurement procedures and believes she needs additional training in order to fully understand all the procurement procedures.

Sole Source Contracts
Not Justified

The Authority does not maintain records that would justify using a sole source to provide elevator maintenance and repair services. The Authority entered into sole source contracts with four elevator companies who were paid a total of \$316,115. The Chief of Procurement states that the Authority believed that using a sole source to provide the service was required as only one particular elevator company would have access to the parts necessary to maintain its brand of elevator. However, the Authority does not have support for its belief that a particular brand of elevator can only be serviced by the company that built the elevator. In addition, the Authority does not have records showing the rationale for the method of procurement, selection of contract type, contractor selection and the basis for contract price as required by 24 CFR 85.36.(b)(9). Also, the Authority's procurement policy provides that if only one responsive bid is received, the award shall not be made unless a cost or price analysis verifies the reasonableness of the price. The Authority had not performed a cost or price analysis.

Lack of Understanding of Contract Terms

The Authority entered into a \$2 million, three year contract with Columbia Energy Services for natural gas without having a clear understanding of the terms of the contract. Because it did not understand the terms, it could not determine if amounts billed by Columbia Energy Services were reasonable. The contract pricing was based on a different gas usage measurement than was measured by the Authority's gas meters. The Authority did not pay invoices for five months of service because it could not reconcile gas usage listed on the billing invoices to gas usage listed on its gas meters. In addition, there was a penalty clause in the contract that did not describe what the penalty would be if contract terms were not met. The Authority needs to implement procedures to ensure that it does not enter into a contract until contract terms are clearly stated and fully understood.

Contract Awarded to High Bidder Without Support

The Authority awarded a contract to Creative Choice Homes, Inc. (CCH) for \$90,000 to develop a Hope VI application. The Authority received 2 proposals in response to their request for proposals. The proposal from CCH was for \$115,000 the other proposal was for \$50,175.

According to the minutes to the Board of Commissioners meeting dated June 18, 1997 the Authority, "decided to meet with both firms to see whether they would be willing to join their efforts in order to prepare the best possible application and enhance our chances of being selected. Both firms agreed to our proposed plan." The minutes went on to explain that both proposals had their strengths and weaknesses. The minutes indicate that CCH was chosen as the lead developer for a proposed fee of \$90,000. The other firm was to serve as a local planner/architect, subject to reaching a satisfactory agreement with CCH. The Director of Development advised that CCH did in fact use the other firm as a subcontractor to develop the application.

When procuring services by competitive proposals, HUD Handbook 7460.8 REV-1, paragraph 4-23A. provides that, "A written plan for evaluating technical and cost proposals should be established and an evaluation review process established before the RFP (Request for Proposal) is issued. Failure to take this action until after the solicitation is issued may give the appearance of favoritism toward one or more contractors....The technical evaluation requires a detailed

evaluation plan to be successful. This plan shall include a rating sheet for each offeror, which lists each of evaluation criteria and the weight assigned....The rating sheets should require the technical evaluator to assign both numerical (or similar) ratings and narrative justifications to support the ratings given.”

The Authority could not locate any documentation to support their evaluation of the two proposals received for developing the Hope VI application. The Director of Finance advised that the Authority procedures for this type of contract award are to evaluate and score the proposals using rating sheets. The Director of Finance advised after discussing with the former Executive Director and Director of Development that no one could locate the documentation to support their evaluation or who performed the evaluation.

Authority’s Staff
Not Trained to
Handle Procurement

The Authority did not follow HUD’s or its own procurement policies and procedures for the procurements/contracts reviewed. The Authority’s Chief of Procurement and Director of Maintenance, who are delegated responsibilities for procurement of maintenance supplies and maintenance services, were not sufficiently trained to handle these responsibilities. The Authority drafted a revised Procurement Policy in November of 1997. However, the Chief of Procurement and Director of Maintenance did not maintain a copy and begin following this policy until after we began our audit. The Authority’s former Executive Director stated that the Authority never bothered to bid competitively for another attorney because of the attorney’s long history with the Authority. It has become a common practice at the Authority not to solicit bids/proposals and execute new contracts for services provided by companies with a long history at the Authority.

Auditee Comments

The Authority generally agreed with the finding and recommendations and provided the actions taken and/or planned to correct the ineffective procurement practices.

Once fully implemented the actions proposed by the Authority appear adequate to correct the cited deficiencies.

Recommendations

We recommend that you instruct the Authority to comply with the Federal Procurement Regulations, including:

- 4A. Requiring the Authority to solicit bids for all services exceeding \$25,000 which are not under contract.
- 4B. Executing contracts with the lowest responsive and responsible bidders.
- 4C. Maintaining documentation supporting the basis for contract awards, including history of procurement and appropriate analysis.
- 4D. Requiring the Authority to provide appropriate staff sufficient training with regard to procurement regulations.



Replacement Of Demolished Low-Income Housing Is Not Being Accomplished

In 1990, the Housing Authority of the City of Bridgeport(Authority) was directed by the United States District Court of Connecticut to replace all units demolished in the Father Panik Village Low-Income Housing Project (Father Panik). The Court ordered Settlement Agreement as modified in September 1993, required the Authority to replace all 1,063 units by March 31, 1997. HUD provided the Authority \$89 million of development funds for the replacement of 818 units. The remaining 245 units were replaced with Section 8 Project Based Certificates. As of March 1, 2000, only 421 units of Public Housing had been replaced at a cost of approximately \$43.8 million and only 41 of the 245 Section 8 Project Based units have been leased. As a result, 601 low-income families have not had access to affordable housing.

Replacement Pace is Behind Schedule

In September 1993, the Court ordered that all units be replaced by March 1997. The following schedule indicates the number of public housing units replaced by year. At the end of 1997, the Authority had only completed 328 of the public housing units and 41 of the Section 8 Project Based units or 35 percent of total required units. The Authority has averaged 32 public housing replacement units per year for the 13 year period since the replacement began.

Fiscal Year	Units Replaced	Cumulative Units Replaced
1987	52	52
1988	69	121
1989	51	172
1990	10	182
1991	0	182
1992	10	192
1993	18	210
1994	31	241
1995	40	281
1996	26	307
1997	21	328
1998	43	371
1999	48	419

Authority Unable to Meet Court Ordered Replacement Dates

The Authority was unable to meet the Court ordered replacement schedule. The Authority’s Executive Director stated that the replacement was slowed because it was difficult to find properties available for low-income

programs, particularly in non-impacted neighborhoods. The Executive Director advised that there is virtually no undeveloped land in the City of Bridgeport and very little existing properties in non-impacted areas which are suitable for public housing.

HUD regulations require that low-income housing be built in neighborhoods that are not depressed so property values can be maintained. HUD also allows development in impacted areas if the housing authority can document that the area is being revitalized and HUD approves their request for a determination of overriding need. The Executive Director advised that in addition to the difficulty in locating eligible properties other mitigating factors also delayed the replacement of the public housing units, such as:

- change in development method in the early 1990's from purchasing and renovating condominium projects to the Turnkey method of development - this change delayed the process until the Authority could learn what HUD expected in the applications for the Turnkey Projects.
- difficulty in dealing with local groups and local and federal representatives.
- difficult and time consuming process of getting approval from all interested parties, including local groups and officials, Connecticut Legal Services, and HUD.

Developer Hired to Speed up Replacement Process

In 1995, the Plaintiffs (displaced tenants of Father Panik) filed a motion with the Court citing the lack of progress by the Authority in meeting the performance schedule in the 1993 Amended Settlement Agreement. In an effort to settle the suit, the parties (Plaintiffs, Authority and HUD) agreed to hire a Preferred Developer to manage the replacement of the Father Panik units. The Authority chose Creative Choice Homes, Inc. (CCH) to be the Preferred Developer and entered into a contract with CCH on August 16, 1996. Subsequently the Authority entered into a Memorandum of Agreement (MOA) with the Plaintiffs' legal representative, Connecticut Legal Services (CLS), regarding the type and location of units and additional services to be provided. As the Authority's Preferred Developer, CCH was responsible to follow the requirements of the MOA. The Authority and CLS executed the MOA on February, 27 1998.

MOA is Unworkable

The MOA envisioned that entire impacted neighborhoods would be revitalized using a combination of funding from HUD, the State of Connecticut, the City of Bridgeport and private sources. CCH estimated that additional funding requirements from non HUD sources for the revitalization totaled approximately \$85 million. Each of the entities contributing funds were part of the planning process. Ultimately, the revitalization effort failed due to the lack of funding from other sources.

CCH Produces Only 20 Units

The contract goal for CCH was to complete at least 350 units by August 1998. At the end of 1999 CCH had only completed 20 units and had an additional 10 units in process. The Authority proposed a settlement agreement of \$1.8 million to terminate the contract with CCH. We issued a separate report on the proposed settlement recommending that the agreement not be approved. See Audit Memorandum No.: 00-BO-101-0801. CCH subsequently sued the Authority for breach of contract and is seeking \$1.3 million in damages, \$500,000 less than the proposed settlement agreement.

No Formal Plans to Complete Replacement

The Authority plans to manage the replacement process from now to completion. Currently the Authority has 114 units in process in various stages. The Authority does not yet have a specific plan as to cost and where, when and what type of replacement units will be developed for the remaining 487 units. Further, the Authority does not know how they will overcome the problems that delayed replacement in the first place i. e., locating existing properties in both impacted and non-impacted areas that are suitable for public housing. Although, there are no formal plans, the Executive Director advised that she is totally committed to having all of the replacement housing complete or under contract within 2 years and completely finished within 3 years.

We believe that HUD should be involved in this new planning process from the start as the Authority cannot explain how it will overcome the problems that have delayed the project. HUD should also assess whether the Authority, as currently staffed, has the capability to create and accomplish a realistic replacement plan in a timely manner.

Auditee Comments

The Authority advised that, since the revitalization efforts envisioned in the Memorandum of Agreement did not succeed, the Authority is prepared to move forward with the Father Panek Village replacement program. The Authority submitted the following documentation to support their plan to replace the demolished units:

Staffing Plan

Unit Production Timetable

Replacement of Public Housing Units Report

Pipeline Properties

Status of Project Based Section 8 Certificates

Father Panek Village Replacement Housing
Summary

OIG Evaluation of
Auditee Comments

The Authority's plan indicates that they will complete 399 public housing replacement units in a 2 to 3-year period while only hiring one construction supervisor and contracting the services of a consultant architect. However, in the previous 13 years, the Authority only replaced 419. There is no discussion or explanation from the Authority to indicate how they could increase production so quickly or remove the obstacles that have delayed the project over the years.

Your staff should review the Authority's plan and determine if it is feasible to complete 399 units in 2 to 3 years with the suggested staffing.

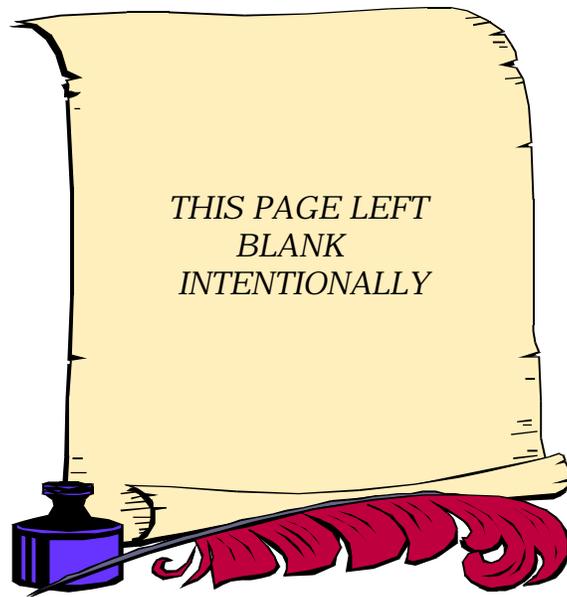
Recommendations

We recommend that you:

- 5A. Require the Authority to develop a realistic plan, including a schedule for completion, for your staff's review and approval.
- 5B. Once a plan has been approved, analyze whether the Authority's staff is capable of implementing the plan.

If not, additional staff or outside sources should be hired to insure timely replacement of the units.

- 5C. Require the Authority to provide periodic status reports on progress to measure against the plan.



Section 8 Vouchers and Certificates Are Under Utilized

The Authority has not administered the Section 8 Existing Certificate and Housing Voucher Programs effectively. As of February 29, 2000, Authority records indicate that 290 of 2,475 Section 8 certificates and vouchers were not in use despite a Section 8 waiting list of 2,630 applicants. This equates to a utilization rate of 88 percent. HUD requires that the Authority prepare and implement a corrective action plan when utilization drops below 95 percent. Authority records indicate that the utilization rate has been under 95 percent since October 1996. As a result, low-income families are not provided with housing opportunities.

HUD Regulations

The Section 8 Management Assessment Program (SEMAP) is a management assessment system that HUD uses to measure the annual performance of Housing Authorities (HAs) that administer the Section 8 tenant-based certificate and voucher programs. The SEMAP final rule became effective October 13, 1998, and encouraged HAs to examine their program operations in the key areas measured by SEMAP and to improve performance if necessary (HUD Notice PIH 98-50 (HA)). One indicator under SEMAP used to measure the performance of HAs is the “Lease-up” rate. Ratings are based upon the percentage of units leased. HAs receives a zero rating for percentage under 95 percent. HUD requires that HAs must correct any SEMAP deficiency (indicator rating of zero) within 45 calendar days from the date HUD provides notice (24 CFR 985.106).

Utilization is Below 95 Percent

Authority records indicate that the utilization rate has consistently been below 95 percent since October of 1996 as follows:

Date	Utilization Percent
October 1996	86%
October 1997	87%
October 1998	89%
October 1999	89%
February 2000	88%

As of February 29, 2000, there were 2,630 families waiting for Section 8 affordable housing opportunities. The waiting list has been closed to new applicants since December 6, 1997. The Authority’s failure to maintain an acceptable

level of utilization has limited affordable housing opportunities for low-income families.

Authority Management
Unable to Correct

Authority management has been aware of their low Section 8 utilization for a number of years but has not been able to implement effective corrective action. The Director of Occupancy for Section 8 stated that the low rate was a combination of several factors with a shortage of staff being the most pressing problem. The Director of Occupancy advised that several times in the past years, she had requested authority to hire additional staff from the current and prior Executive Directors but had been denied. The Authority's Executive Director advised that a time and motion study would be performed to determine if the current staffing level was adequate and to examine ways to increase output of the staff.

Effective Corrective
Action Needed

Authority officials have not been able to agree on the cause of the low utilization rate, and therefore, have been unable to develop an effective corrective action plan. HUD needs to provide the Authority assistance in determining and correcting the cause(s) of the low utilization rate.

Auditee Comments

The Authority disagreed with our conclusion that the Authority could not agree on the cause for the low utilization rate. The BHA provided the factors they believe are affecting the utilization rate. The Authority did not note any internal factors affecting the utilization rate. The Authority only cited external factors from HUD, housing market, and landlords.

The Authority provided a corrective action plan and stated that, "We believe this corrective action plan is aggressive and will positively affect the Section 8 voucher utilization rate and its administration over a three-year period."

**OIG Evaluation of
Auditee Comments**

During the audit, we were advised by the Authority's Director of Occupancy that the number one problem concerning utilization of vouchers and certificates was a shortage of staff. The Executive director advised that a time and motion study would be performed to determine if current staffing levels were adequate. However, a time and motion study is not mentioned as part of the Authority's proposed corrective action.

The Authority's plan to improve the utilization rate over a 3-year time frame is unacceptable. The Authority should determine if there are alternative steps they could take to increase the utilization rate more quickly; including increased staffing.

If the Authority is unable to utilize the Section 8 vouchers and certificates in a more timely manner, we believe that HUD should recapture and reissue them to an Authority which can use them in a timely manner.

Recommendations

We recommend that you:

- 6A. Work with the Authority to develop and implement a corrective action plan to achieve at least 95 percent utilization in the Existing Certificate and Housing Voucher Programs.
- 6B. Require that the Authority submit status reports to your office on its progress in increasing the utilization rate.
- 6C. Consider restricting the Section 8 Operating Reserves use and/or cancel units not leased if the Authority does not implement effective corrective actions in a reasonable length of time.



The Authority Received Duplicate Section 8 Administrative Payments

The Authority billed administrative fees for 18 to 24 Section 8 units to two separate HUD funded programs. We calculate that HUD was over billed by \$34,699 for the period of June 1997 through September 1999. The Authority should be directed to return the \$34,699 to HUD and the Authority should determine if additional duplicate payments were received for the period prior to June 1997 and after September 1999.

HUD Regulations

Administrative fees may only be used to cover costs incurred to perform the Authority's administrative responsibilities for the programs in accordance with HUD regulations and requirements. HUD may reduce or offset any administrative fee paid to the Authority, in the amount determined by HUD, if the Authority fails to perform HA administrative responsibilities correctly or adequately under the program requirements. (24 CFR 982.152)

Duplicate Costs Were Charged to HUD

The Authority included from 18 to 24 Section 8 units it was administering for the City of Bridgeport in its calculation of administrative fees earned on units it was administering under its own Section 8 program. The Authority also billed administrative fees for these 18 to 24 units to the City of Bridgeport Section 8 program, thus the Authority was reimbursed twice for the same expense. Therefore, the Authority failed to perform its administrative responsibilities correctly and billed HUD for costs that were not incurred..

Authority Agrees

Authority officials agreed that duplicate costs had been billed and should be returned. Our analysis of the Authority's records disclosed that \$34,699 of duplicate administrative fees were paid for the period June 1997 through September 1999. We were unable to determine duplicate costs paid prior to June 1997 as the Authority's could not locate monthly computer printouts listing units that were included in the billing of administrative fees. However, we were advised by the Authority's Finance Director that the duplicate charges would date to sometime in Fiscal Year 1995 when the Authority converted to a new computer system. Therefore, the Authority should calculate the amount of duplicate costs billed based on the administrative fee rate in effect during the period of October

Finding 7

1994 through May 1997 to determine the amount of additional duplicate payments.

In addition, the Authority should also determine the amount of duplicate payments after September 1999. All duplicate payments should be returned to HUD.

Auditee Comments

The Authority indicated that they had repaid the \$34,699 in duplicate administrative fees for the period June 1997 through September 1999. The Authority advised they would conduct an analysis for any other possible duplicate administrative fees between October 1995 through June 1997 and return any duplicate administrative fees identified.

OIG Evaluation of Auditee Comments

The Authority should also conduct an analysis to determine if payments were made after September, 1999.

Recommendations

We recommend that you:

- 7A. Require the Authority to determine the amount of duplicate administrative fees billed to HUD for periods prior to June 1997 and after September 1999. Any duplicate amounts should be returned to HUD.

Lack of Internal Controls Over Authority's Private Initiative Account

In December 1995, the Housing Authority of the City of Bridgeport (Authority) started what it termed a "Private Initiative" by seeking business with outside organizations. Our review disclosed that the Authority had not established internal controls to properly charge the time the Authority staff worked on the Private Initiative projects. Since costs were not properly charged to the Private Initiative we could not determine if the Private Initiative projects were a positive or negative source of funds for the Authority. In addition, the Authority circumvented its own internal controls over disbursements. As a result of the Authority not charging any staff time to the Private Initiative, the HUD programs have subsidized the cost of administering the Authority's Private Initiative.

Reduction in HUD Funding Was a Concern

Authority officials advised that the Private Initiative was conceived at a time when the level of HUD funding for housing authorities was expected to be substantially reduced. The Authority's primary objective of undertaking the Private Initiative was to maintain or increase service levels. In addition, the former and current Authority Executive Directors, believed that funds earned through the Private Initiative could be used to improve staff morale by providing benefits that were not allowed by HUD regulations, such as, bonuses and employee loans.

While HUD encourages housing authorities to seek outside business opportunities in order to maintain and/or increase service levels, HUD regulations provide that, "Income generated by subsidiaries, affiliates, or joint ventures.... is to be used for low-income housing or to benefit the residents assisted by the PHA." (24 CFR Part 943.144)

Chairman of the Board of Commissioners Writes HUD Secretary

In December 1999, the Chairman of the Board of Commissioners wrote Secretary Cuomo expressing concerns over our review of the Private Initiative projects. The Chairman suggested that we alluded to the Private Initiative account as a "secret fund that is used for illegal purposes". The Chairman further stated, "The creation of the private initiative will afford us the opportunity to develop or grow other resources independent of our Federal resources to help us develop alternative housing choices for our community."

Federal Requirements for Supporting Costs

We commend the Authority for developing independent sources of funds. Our primary concern is that the Authority had not developed any controls to charge the Private Initiative projects for the time worked by the Authority's staff. Our other concerns were that the Private Initiative account was not recorded on the Authority's books and records, funds were not used for the primary objective of increasing services, and that 1099's or W-2's were not issued for bonuses paid in 1998 to the Authority's staff until February 2000.

OMB Circular No. A-87 establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

Basic guidelines include factors affecting allowability of costs, which include:

- "a. Be necessary and reasonable for proper and efficient performance and administration of Federal Awards.*
- "b. Be allocable to Federal awards under the provisions of this Circular." (Attachment A, paragraph C. 1. a. and b.)*

Allocable costs include, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received...." (Attachment A, paragraph C. 3. a.)

For supporting salaries and wages these standards require that, *"Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports....Such documentary support will be required where employees work on:*

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity . . ."

Three Efforts Started

(Attachment B, paragraph 11h.(4)

The minutes to the Board of Commissioners meeting dated November 13, 1995 indicate that they approved the management contract for a 24 unit project. This became the first project which was placed in the Private Initiative account. The contract became effective on December 1, 1995. The minutes to the November 13, 1995 Board Meeting also indicated that the former Executive Director stated that, “. . . we are basically asking for Housing Authority staff to donate their time to some degree to get this off the ground, and at some point we plan to reimburse those involved in this effort with a bonus.”

Since that time, the Authority has entered into two additional agreements: a second management contract for six units was effective on April 1, 1998; and an agreement to provide relocation services to a subsidiary of another housing authority was also effective on April 1, 1998.

Primary Objective of Private Initiative Not Met

As noted above the primary objective of the Private Initiative was to maintain or increase the Authority’s service level to their tenants. The fees earned by the Authority for the period March 1998 through August 1999, were as follows:

Project	Amount
Meadow Landing	\$44,000
Smith Street	3,034
Clinton Avenue	10,493
Total	\$57,527

During the period from March 1998 through November 1999 the Authority paid \$54,766 for staff bonuses and benefits, leaving \$2,761 as a return to the Authority. However, as noted below the Private Initiative was not charged for any staff time worked on the project. The latest payments of bonuses to employees in November 1999 totaling \$21,630 indicated that 28 staff members worked on the Private Initiative projects.

Disbursements Not Approved by Board

The Authority did not present any of the disbursements for the three Private Initiative projects to the Board of Commissioners for review and approval until November 1999. The Authority’s policies and procedures requires that

Staff Time Not Documented

all disbursements for the other projects administered by the Authority receive Board approval.

The Authority did not require staff members to record their time worked on the Private Initiative. Further the Authority did not develop a cost allocation plan to allocate costs of those staff members who worked on the Private Initiative. Without any documentation to support the time worked on the Private Initiative (either for time during or after normal office hours) the Authority paid at least 28 staff members, including the current and former Executive Directors) bonuses totaling \$39,080 for services rendered.

The Authority's Director of Finance advised that she and the Authority's current Executive Director had determined the staff bonus amounts based on their estimation of how much after hours work each staff member had spent on the Private Initiative projects.

Without any supporting documentation it is impossible to determine if any of the payments for after hours work is reasonable or if work was performed after hours.

The current and former Executive Directors advised that they attempted to only have staff work on the Private Initiative projects after office hours. However, the former Executive Director conceded that it was not possible to do strictly after hours since phone calls would need to be taken and made during normal work hours and some functions could not be done at night.

Our review identified several areas where staff time would be necessary during normal business hours, however, as noted above no staff time was charged to the Private Initiatives: 1) The contract for relocation services provided \$26,000 for "Management Oversight". Since the relocation specialist was providing services during normal business hours the "Management Oversight" would be required to be provided during normal business hours; and 2) The contracts for management services required the Authority, in part, to collect rents, market the units, show units to prospective tenants, take and process applications for rentals, enforce full compliance with the terms of the Lease; and maintain the projects in a safe and sanitary condition.

Most of these services would need to be performed during normal business hours.

Miscellaneous Income Not Reported to IRS

The original payments were not made through the Authority's payroll system so normal Federal and State withholdings and reports were not generated. Further, the Authority did not issue Form W-2's (Wage and Tax Statements) or Form 1099's Misc (Miscellaneous Income Statement) to the IRS for bonus payments totaling \$4,450 to four staff members in 1998 and \$12,000 paid in early 1999. No withholdings for taxes were made at that time. The Authority subsequently filed Form 1099 Misc for the \$12,000 earned in 1999 and the \$4,450 earned in 1998. The \$21,630 paid to 28 staff members in November 1999 were processed as payroll checks so that the income would be included in the employees W-2's.

Private Initiative Not Recorded on Authority's Books

The Private Initiative account was not recorded on the official books and records of the Authority. The Authority established a separate bank account for the Private Initiative which was not included on the official books of the Authority. The Executive Director stated that one of the purposes of the account was to use the funds for items that would not be allowed by HUD regulations and since they were not working on the projects during normal business hours they believed the account should not be on the Authority's books.

Although the Private Initiative account was not on the books of the Housing Authority all three contracts executed for the Private Initiative projects were executed in the Authority's name.

In September 1999 the Authority included the Private Initiative account on the Authority's books.

Only 1 Signature on Checks

The checks only required one signature (the Director of Finance) rather than two as required by the other Authority accounts.

Other Questionable Charges Paid by Private Initiative Account

In addition to the \$39,080 paid to the staff for bonuses, there were additional questionable charges totaling \$15,686 paid from the Private Initiative account. The questionable charges included: \$7,200 for merit pay (36 employees were

paid \$200 each); loans to 2 employees totaling \$6,500; \$1,486 paid for a staff banquet where the merit pay was disbursed and \$500 for an employee's funeral.

Profit/Loss Not
Determinable

As noted above the Authority did not follow its own policies and procedures for documenting or accounting for the costs incurred by the Private Initiative account. In addition, the Authority did not require the staff to document the time worked on the Private Initiative as is required by OMB Circular A-87.

The former Executive Director advised that since this was in effect a new business, it could not pay/reimburse all costs associated with it, since there would very likely be a substantial loss which is normal for a new business.

* * * * *

HUD Funds Indirectly
Subsidizing the Private
Initiative

Without any controls in place to account for the proper charges to the Private Initiative, it is impossible to determine whether or not the income generated by the Private Initiative was sufficient to cover the expenses. However, since no reimbursements were made by the Private Initiative for Authority staff time, HUD funds were indirectly subsidizing the Private Initiative since all staff salaries are charged to HUD projects.

The former Executive Director advised that in hind sight they should have operated the Private Initiative projects out of the non-profit company that they had established (Urban Innovative Development Corporation).

While we agree that would have been a better choice than establishing a separate bank account off the books and records of the housing authority, it would not eliminate the need to establish controls over the time the Authority staff would spend administering these projects.

As a result of our review the Authority has transferred the Private Initiative account onto the Authority's books where it will be accounted for separately. The Executive Director advised that all future disbursements will be presented to the Board of Commissioners for approval as required for all

other projects. The Executive Director further advised that sometime in the future, when there is more activity, they will establish controls to charge the staff's time to those projects.

We believe that the Authority should immediately require the staff to document their time on a time and attendance report or develop a cost allocation plan to allocate the cost of the staff who are involved in administering the Private Initiative projects. Without identifying the time worked on the Private Initiative projects or an allocation of the staffs time, HUD will be subsidizing those projects.

Auditee Comments

The Authority disagreed strongly with our finding on the Authority's Private Initiative Account primarily for the following reasons:

1. The Private Initiative revenue is less than half of one percent of the total revenue and management spent very little time which was usually after working hours.
2. *"The Private Initiative income was generated outside and separate from HUD funding .So the Inspector General had no right to audit the operations of this program . . . except for the fair and reasonable treatment of shared costs and related expenses as required under OMB Circular A-87 . . .Cost allocations among programs within our Authority."*
3. The Inspector General grossly misstated the transactions. *"They reported fees earned from March 1998 through August 1999. Yet, they reported disbursements from March 1998 through November 1999!!"*

OIG Evaluation of Auditee Comments

If the Authority had established adequate internal controls over the Private Initiative Account, our review would have been limited. However, without adequate internal controls there are no assurances that the HUD programs are not subsidizing the Private Initiatives and a detail review on our part was deemed necessary.

The Authority misunderstood our reporting of the Private Initiative account. The Authority interpreted our comparison to be income versus expenses. The report actually reflects the amount of the fees earned under the three contracts (not all revenue) and the disposition of those fees (not all disbursements). The reason we extended the disbursements of the fees to November 1999 was to report on the latest bonuses totaling \$21,630 paid to 28 staff employees. We did not have the information on the fees earned for the period September through November 1999; however, those fees would be less than \$3,000 since they had received all the fees due under the Meadow Landing contract.

We believe the bonuses paid in November 1999 totaling \$21,630 for 28 employees supports our conclusion that many of the Authority's staff worked on the Private Initiative, and their salaries were paid with HUD funds, which were not reimbursed. In the minutes to the Board of Commissioner's Meeting dated November 8, 1999, the Executive Director advised the board that, ". . . *the group of people receiving the bonuses at this time are individuals that provided assistance on the private initiative projects in order to get the work done and there are many persons in this operation that did not work on any of these projects.*"

The Authority did not directly address any of the recommendations which we are reporting.

Recommendations

We recommend that you:

- 8A. Require the Authority to develop adequate internal controls to assure that the Authority properly charges staff time to the Private Initiative projects and reimburses the General Fund.
- 8B. Require the Authority, at a minimum to reimburse the General Fund \$26,000 representing the funds received for supervision under the relocation contract.
- 8C. Obtain assurances from the Authority that all future disbursements for private initiative projects be submitted for the Board of Commissioners approval.

- 8D. To submit to the Board of Commissioners an accounting of all disbursements from the Private Initiative account for their review and approval.



Need to Account For Portable Section 8 Vouchers And Certificates

In the last 10 years, the Authority has only once reconciled amounts billed to and received from other Housing Authority's for portable Section 8 vouchers and certificates. The last reconciliation was performed in September 1998. As a result, the Authority could not support \$307,555 of Section 8 accounts receivable listed on its books of record on September 30, 1999; therefore, other housing authorities are disputing amounts billed.

HUD Requires Accountability

HUD requires the Authority to “...implement an accounting system that will be able to identify all transactions related to portability...”. (Office of Public and Indian Housing Notice 96-54, paragraph 7, dated July 26, 1996)

Reconciliation Not Performed

The accountant assigned responsibility for the Section 8 program told us that when he was assigned the job in 1998, he found that billings and receipts for portable vouchers and certificates had not been reconciled since September 1990. The accountant stated that he had performed a reconciliation through September 1998 but had not had the time to reconcile amounts after that date. The accountant advised that the \$307,555 listed on the books of record as Section 8 portable accounts receivable at September 30, 1999 was not accurate because billings and receipts had not been reconciled.

Billings in Dispute

The Section 8 accountant also advised us that billings to other housing authorities were in dispute. He did not know the total amount in dispute but estimated it was approximately \$100,000. Based on his reconciliation performed in September 1998, the accountant sent follow-up billing invoices to other housing authorities. The original invoices for many of the follow-up invoices were issued in the early 1990s. The accountant stated that many of the other housing authorities no longer had records for that period. He stated that without records these other authorities could not verify that services were received or were not already paid for and have refused to pay.

HUD Resolves Disputes
Between Housing
Authorities

The Office of Public and Indian Housing Notice 96-54, paragraph 6, states "...HAs are encouraged to resolve all billing problems without HUD's involvement. Situations that cannot be resolved should be referred to the local HUD Field Office..." The Section 8 accountant advised that he had contacted the other housing authorities by phone and letter for over 15 months but had been unable to convince some of the authorities to submit payment. We believe that the Authority should refer the amounts in dispute to HUD's Connecticut State Office for resolution.

Auditee Comments

The Authority generally agreed with the recommendations and indicated they had hired a temporary employee to reconcile the Section 8 portable vouchers and certificates and would refer disputes to HUD's office for resolution.

For our recommendation to maintain an accurate accounting of the Section 8 portability billings and receipts on a monthly basis, the Authority advised that, *"We will review the possibility of hiring part-time help to maintain portables."*

OIG Evaluation of
Auditee Comments

The Authority should submit their planned corrective action should they decide not to hire part-time help to maintain the portables.

Recommendations

We recommend that you require the Authority to:

- 9A. Reconcile billings and receipts for Section 8 portable vouchers and certificates from September 1998 forward.
- 9B. Maintain an accurate accounting by reconciling Section 8 portability billings and receipts on a monthly basis.
- 9C. Submit billings that are in dispute to the HUD Connecticut State Office for resolution.

Management Controls

In planning and performing our audit, we considered the management controls used by the Housing Authority of the City of Bridgeport (Authority) that were relevant to our audit objectives. We considered the Authority's management control systems to determine our auditing procedures and not to provide assurance on management controls.

Management Controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data is obtained maintained, and fairly disclosed in reports.

Relevant Management Controls

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

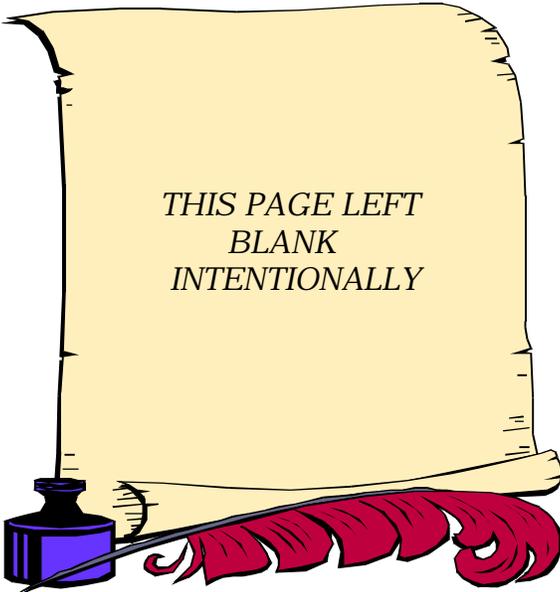
- General Administrative Policies
- Financial Controls Over Program Funds
- Management Controls Over Program Expenditures
- Management Controls Over Procurement and Contract Administration
- Management Controls Over Budgets
- Management Controls Over the Leasing of Units
- Administration and Disbursement of Grant Funds
- Management Controls Over the Authority's Private Initiative Projects and the Development of 21 Duplexes known as Pembroke Green

We assessed all relevant controls identified above.

Assessment Results

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulation, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

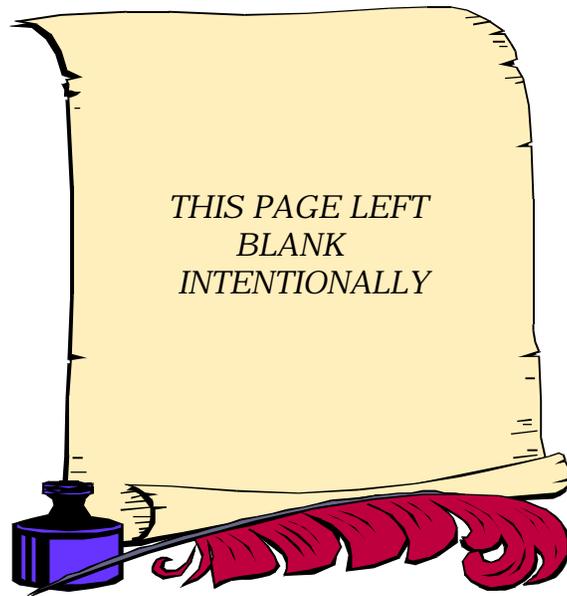
Our review disclosed significant weaknesses in all management controls identified above and are discussed in the Finding and Recommendations section of this report.



Schedule Of Ineligible and Unsupported Costs

Finding	Ineligible (1)	Unsupported (2)
1. Excessive Operating Subsidy	\$750,714	
7. Duplicate Administrative Fees	\$ 34,699	
8. Supervision Not Reimbursed		\$26,000

- (1) Ineligible amounts obviously violate law, contract, HUD or local agency to policies, or regulations, such as buying unneeded services or not depositing receipts.
- (2) Unsupported amounts do not obviously violate law, contract, policy, or regulation, but warrant being contested for various reasons, such as the lack of satisfactory documentation to support eligibility and HUD approval.



Schedule Showing Vacancy Rate and Average Days Vacant By Project

Project No. CT 26P001-	Project Name (4)	Number of Units in Project	No. of Units in average	Vacancy Rate	Average Days Vacant
Family and Elderly Developments					
0003	Marina Village (1)	405	47	12%	795
0005	P.T. Barnum Apts.	360	54	15%	226
0006	Charles Green Apts.	270	37	14%	153
0008	Fireside Apartments, Ext-1	96	3	3%	63
0009	Harborview Towers	231	29	13%	167
0010	Fireside Apartments, Ext-2	102	1	1%	99
0070	Trumbull Gardens (2)	338	88	26%	626
0071	Pequonnock (3)	256	73	29%	302
Scattered Sites					
0022	Boston Commons	33	5	15%	252
0023	Atlantis	14	1	7%	128
0025	Tudorhill Townhouse	23	1	4%	66
0026	Marlboro Court	28	1	4%	248
0029	Willow Mews Townhouse	20	1	5%	42
0035	Sheridan Street Townhouse	10	3	30%	254
0039	Concord Street Duplex	5	1	20%	35
0043	146 C Catherine Street	27	1	4%	23
0047	74 Hewitt Street	16	1	6%	35
	Totals	2,234	347		404

- (1) 25 units are in the process of being rehabilitated, as of October 12, 1999.
- (2) Figures do not include the 64 vacant units at Trumbull Gardens High-Rise Building 10.
- (3) On January 14, 2000, HUD approved the Authority's request to dispose the 256 Pequonnock units. The Authority plans to relocate the families now residing in Pequonnock to other Authority properties.
- (4) Only projects with vacancies.



Auditee Comments

*Housing Authority of the City of Bridgeport
150 Highland Avenue
Bridgeport, Connecticut 06604*

May 31, 2000

Mr. William D. Hartnett, District Inspector General
New England Office of Inspector General
for Audit, 1AGA
U. S. Department of Housing
and Urban Development
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, MA 02222-1092

Dear Mr. Hartnett:

**Subject: Audit Response, Housing Authority of the City of Bridgeport,
Audit Case No. 00BO-XXX-XXXX**

We have enclosed, for your review and consideration, our response to the issues raised in your draft audit report of April 5, 2000. Although, we take exception to the manner in which the findings were reported, it is our hope that our responses will be strongly examined for accuracy and consideration will be given to remove said item from the final report.

Further, throughout the audit process the Authority endeavored to respond quickly to any issues raised by your auditors. We sincerely feel we were not portrayed fairly. Consideration should have been given to the OMB Circular A-87 where appropriate and no financial irregularities with regards to our operation were found and should have been noted. The finding identified as part of our replacement initiative needs to be examined more closely as the Authority cannot be held accountable for situations beyond our control, especially when other opinions and interests carry more weight than the responsible body.

In closing, I would like to add that the audit experience has required us to monitor more closely our activities to ensure oversights do not occur and that our management and fiscal operations meet or exceed standards defined by the U. S. Department of Housing and Urban Development.

Mr. William D. Harnett
District Inspector General
Office of Inspector General
May 31, 2000

2...

Should you require any further information or clarification, please feel free to contact me at (203) 337-8915.

Sincerely,

HOUSING AUTHORITY OF
THE CITY OF BRIDGEPORT

Collin Vice
Executive Director

CV:em

Enclosure

cc: Ms. Phyllis Smelkinson
Ms. Sonia Samuels
Board of Commissioners
Mrs. Olive Harbor
Mr. Jonas DeGuzman

FINDING 1

Authority Received \$750,000 in Excess Operating Subsidies
And Paid Over \$300,000 In Utility Cost for Vacant Units

1A. Require the Authority to reimburse HUD \$750,714 of excess operating subsidy.

See Attachment A

1B. Assure that the Authority adjusts its fiscal year 2000 Calculation of Performance Funding System Operating Subsidy to reflect long-term vacant units at Building 11.

The BHA will revise the budget to reduce the subsidy for fiscal year 2000 for the long-term vacant units in Building 10 and 11.

1C. Require the Authority to implement policies and procedures to track long-term vacant units and remove such from the subsidy calculation.

A unit will be considered “long-term vacancy” if the unit has been vacant for more than twelve (12) months. The Director of Management and Operations will submit monthly reports, to be reviewed by the Director of Finance, indicating vacant units longer than 12 months. The Director of Finance will make the calculations to reflect this vacancy.

1D. Direct the Authority to turn off the utilities in Building 10. Drains should be installed so water can be drained from the pipes in Building 10.

While the apartments in Building 10 were vacant, the WIC program and the Girl Scouts of America used the building (see Attachment B). Areas of the building cannot be localized; therefore, the entire building was heated. Upon completion of the community center, the programs were transferred. Nevertheless, the BHA turned off the utilities in Building 10.

1E. Direct the Authority to repair broken windows so birds cannot enter Building 10.

The BHA repaired all broken windows to prevent birds from entering vacant apartments in Buildings 10.

1F. Require the Authority to turn off the heat and completely shut the windows in Building 11 vacant units.

We could not find open windows in Building 11. This issue refers to Building 10 and has been resolved. Additionally, we cannot turn the heat off in Building 11 since more than half of the apartments are occupied.

1G. Require the Authority to develop a plan for the use of Buildings 10 and 11.

The BHA is submitting a request to the Special Applications Center (see Attachment C), as per instructions from the CT State Office Program Center, within thirty (30) days to designate Building 11 into housing for the elderly. There are currently twenty-two (22) elderly families in the site. Twenty-eight vacant apartments will be included in the designation. The balance of the remaining occupied units will not be required to relocate. As soon as the designation has been determined appropriate and approved, the rehabilitation process will begin immediately.

Building 10 will be rehabilitated back into a low to moderate-income cooperative housing. A Request for Proposal from a legal firm to assist the BHA legally structure the cooperative was published on May 15 and a selection date was scheduled for June 9 (see Attachment D). Discussions with HUD, Abbey Ogunbola, and HUD Washington, Office of Elinor Bacon, have been fruitful.

In the meantime, the BHA will restore the condition of all vacant apartments with Comp Grant funding.

Attachment A

Response to Finding #1:

We agree that the long-term vacancies should have been excluded from our PFS calculations for FY1996 thru FY 1999. We do not agree with the excess subsidy, amount of \$750,714. In accordance with the attached vacancy rule PIH 96-35, a PHA is entitled to 20% of the AEL for units that are deemed Long-Term Vacancies. The vacancy rule also states that these units are eligible for utility costs. Based on our estimates excess operating subsidies would be between \$200,000-300,000. In addition, in accordance with The Vacancy rule, this amount should not be returned either. The Vacancy rule allows a PHA to obtain subsidy from HUD for units that are vacant due to circumstances beyond the PHA control.

As stated in our initial response to your report, uncontrollable crime problems prohibited us from leasing these units. Also we did submit proposals to HUD to convert these units to Elderly Housing, once on May 14, 1996 and again on March 17, 1999. We still have not received a response from HUD. We have no control over this and as stated in your report we cannot act on these units without HUD approval.

We feel these circumstances are beyond our control and in accordance with the Vacancy Rule, would allow us to be eligible for subsidy for these units.

FINDING 2

Poor Management Resulted in Inappropriate Use of \$2.5 Million in Low-Income Operating Funds

We do not consider it inappropriate to use BHA funds to build homes for the poor. We are in the business of housing those in our populace with housing needs.

We acknowledge that the project cost more than was originally anticipated and would have preferred that it didn't. However, we had already invested significant financial resources and also received financial commitments from other entities. The BHA did not think it was in the best interest of the BHA and the City of Bridgeport to leave the project unfinished.

Nevertheless, the City of Bridgeport will receive approximately \$70,000 in taxes per year in tax revenues in an area that was previously tax exempt.

The total cost to the Housing Authority will be \$2.4 million of which \$1.6 million was approved by the Commissioners and also by HUD in the operating budget.

The balance of \$800,000 was subsequently approved by the Commissioners and will be paid from the administrative fees earned from administering the Section 8 programs, so in effect only \$1.6 million will be taken from the low-income operating reserve. We did not misuse low-income operating funds. We were and still are in excellent financial shape.

We did obtain approval for the use of the low-income operating funds from the Commissioners and from HUD.

FINDING 3

The Authority Needs to Reduce High Vacancy Rate

3A. Require the Authority to submit their corrective action plan for your staff's review and approval.

The BHA recognizes the need to reduce the vacancy rate. The BHA's corrective action plan addresses four main factors affecting the rate.

- 1) Personnel Factor. Establish a long-term vacant unit "blitz crew" of current BHA maintenance staff to improve the average make-ready days. A five-week project was implemented and found to be successful. A permanent crew is scheduled for full implementation on May 30 (see Attachment E).
- 2) Tenant Selection Factor. The BHA established a "Program Review Committee" consisting of the Director of Management and Operations, Special Assistant to the Executive Director, and the Senior Manager on April 17 (see Attachment F) to aggressively address the deficiencies in the tenant selection office. Our goal is to improve the processing time of applicants from a twelve (12) month wait to eight (8) months within a year, with further improvements the following year. Second, submit and approve a revision to the admission policy (see Attachment G), which should contribute to the improvement of this department. The Board of Commissioners will review this policy for approval within sixty (60) days.
- 3) Crime Factor. The BHA and the City of Bridgeport has been aware of this issue. The BHA is partnering with the City of Bridgeport to create a Housing Authority Police Unit under the direction of the City Police Department (see Attachment H). A consistent presence by the police within the sites should increase resident confidence with safety. The BHA received preliminary approval from the Mayor of Bridgeport and the city's Police Chief. The BHA will leverage existing funds to finance the additional officers.
- 4) Public Perception Factor. The BHA is actively changing the perceptions of public housing. We aggressively engage in public relations activities such as print, press, community meetings and activities, Internet, customer surveys, public access TV, etc (see enclosures). The BHA is reaching out to the community and changing the image of public housing.

3B. Require the Authority to submit periodic progress reports on its progress in reducing the number of vacant units.

The Program Review Committee will submit a monthly progress report to the Executive Director indicating the vacancy rate, make ready days, staff progress, & any adjustments to meet the vacancy reduction goals. The Executive Director will submit reports as required by the Office of Public Housing.

FINDING 4

Procurement Practices Are Ineffective

4A. Require the Authority to solicit bids for all services exceeding \$25,000, which are not under contract.

All vendors with contracts over \$25,000 are expected to be open for competitive bid according to terms and timelines. At which point, request for proposals will be published and upon selection, contracts will be written.

Request for Proposals (RFP) for trash remover is scheduled for bid opening within thirty (30) days. The RFP guidelines for painting contractors will be submitted and published within sixty (60) days. A new elevator service company was selected in place of AEEO, Incorporated most recently.

4B. Executing contracts with the lowest responsive and responsibility bidders.

An “RFP Evaluation Committee,” which consists of the Special Assistant to the Executive Director, Director of Modernization, Director of Management and Operations, and the Director of Maintenance, was established on April 25, 2000 (see Attachment I) to review proper implementation of the procurement policy and guidelines on a regular basis. This committee will ensure that the RFP process and documentation is executed properly. This committee will also serve as a resource for the Procurement Officer.

4C. Maintaining documentation supporting the basis for contract awards, including history of procurement and appropriate analysis.

The Committee will assist the Procurement Officer in the development of RFP’s with regards to criteria and weight associated, scope of work, deadlines, etc. and in the evaluation of “competitive bids” periodically. The Procurement Officer will provide the committee members meeting minutes, copies of RFP’s and proposals, and maintain records of all proposals reviewed indicating why and how a contractor was chosen. The Procurement Officer upon review by the committee will submit, in writing, its recommendation to the Executive Director. Upon approval by the Executive Director, the contract may be awarded. The Procurement Officer will be responsible for all documentation of the selection process.

4D. Requiring the Authority to provide appropriate staff sufficient training with regard to procurement regulations.

The Committee will serve as a resource for the Procurement Officer. Additionally, the BHA will train the Procurement Officer of the most current regulatory requirements of federal, state, and company procurement policies through conferences and inservices. The Procurement Officer will inform the committee of any additions or changes.

FINDING 5

Replacement of Demolished Low-Income Housing
Is Not Being Accomplished

- 5A. **Require the Authority to develop a realistic plan, including a schedule for completion, for your staff's review and approval.**

See Attachment J & K.

- 5C. **Require the Authority to provide periodic status reports on the progress to measure against the plan.**

The Director of Modernization is expected to submit, in writing, a monthly report to the Executive Director evaluating the progress of the bids, contract approvals, unit replacement progress, remaining units, and timetables. The Executive Director will submit reports as required by the Office of Public Housing.

Attachment J

FINDING NO. 5

Replacement of Demolished Low Income Housing is not being accomplished

Since the revitalization efforts envisioned in the MOA (Memorandum of Agreement) did not succeed, the Authority is prepared to move forward with the Father Panik Village replacement program.

The following documentation is attached to support our plan to replace demolished low income housing units.

- Staffing Plan
- Unit Production Timetable
- Replacement PHU's Report
- Pipeline Properties
- Status of Project based Section 8 Certificates
- Father Panik Village Replacement Housing Summary

STAFFING PLAN

Our current staffing for Modernization/Development is structured as follows:

- Director Modernization/Development
- Administrative Assistant
- Contract Compliance Clerk
- Two part-time construction supervisors

In order to expedite the housing replacement program, the Authority will add the following positions:

- Consulting Architect - (under contract)
To expedite plan reviews and proposals as needed
To prepare scope of work for rehabilitation work and new acquisitions
- Two full time Construction Supervisors
To monitor on-going construction, modernization/development activities and project based Section 8

FINDING 6

Section 8 Vouchers and Certificates Are Under Utilized

6A. Work with the Authority to develop and implement a corrective action plan to achieve at least 95 percent utilization in the existing certificate and housing voucher programs.

The BHA disagrees with the Inspector General's conclusion that we have not been able to agree on the cause of the low utilization rate. The BHA provided the factors affecting the utilization rate of Section 8 vouchers.

- 1) HUD Factors. HUD issued a thirty (30) day delay in releasing Section 8 vouchers between 1996 through 1998 (see Attachment L & M page 3) and decreased the FMR in 1996 to 2000 (see Attachment N). When combined with the normal turnover of the vouchers (see Attachment O), the utilization rate was greatly affected.
- 2) Market Factors. A high number of apartments are unable to pass HUD and BHS HQS. This limits choices available to a prospective tenant. Second, quality apartments command a higher rate. The BHA hired a consultant to do a market analysis of the FMR in the community (see Attachment P). This study is due within ninety (90) days and will be made available upon completion.
- 3) Landlord Factors. There are a number of landlords who refuse to participate in the program, despite their knowledge of its illegality, due to their history and experiences. Some families left market apartments in poor standing. This made many landlords reluctant to accept a prospective Section 8 tenant.

The BHA's corrective action plan includes proactive activities such as:

- 1) A public-access television public relations campaign to address the issues of perception and to regain the trust of former and new landlords.
- 2) HUD removed barriers by revising the delay issuance (see Attachment M page 3).
- 3) Raising FMR, if appropriate, to a higher level.
- 4) Community education marketed towards new and former landlords.
- 5) Working with HUD, City of Bridgeport, and community organizations to improve HQS.
- 6) Establish a Section 8 Review Committee to review the practices, policies, and staff's effectiveness in carrying out its mission. This committee is similar in concept to the Program Review Committee (see Finding 3A-2 response) and the RFP Review Committee (see Finding 4B response).

We believe this corrective action plan is aggressive and will positively affect the Section 8 voucher utilization rate and its administration over a three-year period.

6B. Require the Authority to submit status reports to your office on its progress in increasing the utilization rate.

The Director of Section 8 is expected to submit, in writing, a monthly report to the Executive Director providing the progress of the corrective action plan and of the utilization rate. The Executive Director will submit reports as required by the Office of Public Housing.

FINDING 7

The Authority Received Duplicate Payments

7A. Require repayment of \$34,699 in duplicate administrative fees.

The BHA returned \$34,699 in duplicate administrative fees (see Attachment Q). The error occurred when the BHA changed from the Wang Computer System to the AS400. The number of units was immaterial and somehow got overlooked when the new system was set up.

7B. Require the Authority to determine the amount of duplicate administrative fees billed to HUD for periods prior to June 1997 and after September 1999. Any duplicate amounts should be returned to HUD.

The BHA will conduct an accounting analysis for any other possible duplicate administrative fees between October 1995 through June 1997. The BHA will return any duplicate fees upon determination by the analysis.

FINDING 8

Lack of Internal Controls Over Authority's Private Initiative Account

- 8A. **Require the Authority to develop adequate internal controls to assure that the Authority properly charges staff time to the Private Initiative projects and reimburses the General Fund.**

See Attachment R.

- 8B. **Require the Authority, at a minimum to reimburse the General Fund \$26,000 representing the funds received for supervision under the relocation contract.**

See Attachment R.

- 8C. **Obtain assurances from the Authority that all future disbursements for private initiative projects be submitted for the Board of Commissioners approval.**

See Attachment R.

- 8D. **To submit an accounting of all disbursements from the Private Initiative account, to the Board of Commissioners for their review and approval.**

See Attachment R.

*Attachment R***Finding #8**

We disagree strongly with the Inspector General's statements on the Authority's Private Initiative Account. This Authority receives approximately \$44,000,000 per year in Revenues/Subsidies and Grants. Of this \$18,000 is generated by the Private Initiative account which is less than HALF OF ONE PERCENT OF OUR TOTAL REVENUES/GRANTS. Management spent very little time on this account, and this time was usually after working hours. Sure, there were occasional times when we answered questions, responded to an issue or made a phone call during the workday, but this was minimal!

Secondly, the Private Initiative Income was generated outside and separate from HUD funding. The \$18,000 we made per year was for the Housing Authority as established under state laws and not for HUD ACC programs. So the Inspector General had no right to audit the operations of this program and include each detail of this program in their report except for the fair and reasonable treatment of shared costs and related expenses as required under OMB Circular A-87... cost allocations among programs within our authority. Any further auditing work outside of OMB Circular A-87 will be performed by outside auditors for the Housing Authority as required under the Single Audit Act.

Thirdly, the Inspector General staff grossly MISSTATED the transactions. They reported fees earned from March 1998 through August 1999. Yet they reported disbursements from March 1998 through November 1999!! Any good accountant knows that the income and expenses should be for the same period. Yet the I.G. chose to include an additional three (3) months of expenses. This is a distortion of facts!! If the Inspector General chose to report transactions in a correct accounting format, they would have shown \$57,527 in revenues and \$33,136 in disbursements of which \$6,000 were loans which were repaid, so the net expenses for this time period was \$27,636 versus income of \$57,527!!; a net revenue of \$30,000 and not \$2,761 as stated in the I.G. report!!

The I.G. was correct that miscellaneous income of \$4,450 was not reported to the IRS for 1998. This was an oversight and was corrected when the I.G. brought it to our attention. For the \$12,000 paid out in 1999, 1099's were issued within the time frame allowed by the IRS!! This is not a finding.

The Authority transferred the Private Initiative account to the authority's books based on a recommendation by their auditor Malcolm Johnson and Company, so that this program could be audited along with all our programs. The review by the I.G. had nothing to do with this transfer.

FINDING 9

Need To Account For Portable Section 8 Vouchers and Certificates

- 9A. **Reconcile billings and receipts for Section 8 portable vouchers and certificates from September 1998 forward.**

We have hired a temporary employee to apply payments to receivable balances from September 1998 to present

- 9B. **Maintain an accurate accounting by reconciling Section 8 portability billings and receipts on a monthly basis.**

We will review the possibility of hiring part-time help to maintain the portables.

- 9C. **Submit billings that are in dispute to the HUD Connecticut State Office for resolution.**

We will refer disputes to HUD's office for resolution.

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