AUDIT REPORT

WATERBURY HOUSING AUTHORITY
AUDIT OF SELECTED PROGRAMS

WATERBURY, CONNECTICUT

2005-BO-1001

OCTOBER 13, 2004

OFFICE OF AUDIT, REGION I
BOSTON, MASSACHUSETTS

Issue Date October 13, 2004	
Audit Case Number 2005-BO-1001	

TO: Robert P. Cwieka, Acting Director of Public Housing Hub, 1APH

FROM: Heath Wolfe, Acting Regional Inspector General for Audit, 1AGA

SUBJECT: Waterbury Housing Authority
Audit of Selected Programs
Waterbury, Connecticut

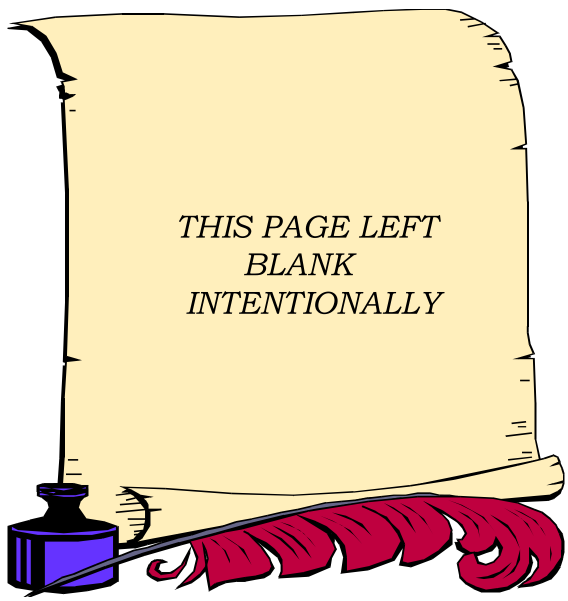
We completed an audit of the Waterbury Housing Authority's selected Programs. The selected Programs included: Capital Fund Program; disposition of the South End project; Public Housing Development Grant Program; Section 5(h) Homeownership Program; multifamily projects owned, managed, and administered by the Authority. The primary purposes of our audit were to determine whether the Authority: administered its selected Programs efficiently, effectively, and economically; and complied with the terms and conditions of its Annual Contributions Contract, applicable laws, relative directives, and HUD's regulations. The audit resulted in five findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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 considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit

Should you or your staff have any questions, please contact Cristine O'Rourke, Assistant Regional Inspector General for Audit, at (617) 994-8382 or me at (617) 994-8380.

Exit

Table of Contents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Executive Summary

At the request of HUD's Hartford Field Office, we completed an audit of the Waterbury Housing Authority's selected Programs. The selected Programs included: Capital Fund Program; disposition of the South End project; Public Housing Development Grant Program; Section 5(h) Homeownership Program; multifamily projects owned, managed, and administered by the Authority. The primary purposes of our audit were to determine whether the Authority: administered its selected Programs efficiently, effectively, and economically; and complied with the terms and conditions of its Annual Contributions Contract, applicable laws, relative directives, and HUD's regulations.

The Housing Authority did not administer its selected Programs in an efficient, effective, and economical manner. Additionally, the Authority's management controls were very weak to ensure that it complied with the terms and conditions of its Annual Contributions Contract, applicable laws, relative directives, and HUD's regulations.

The Authority Did Not Manage Its Development And Homeownership Programs Effectively

The Authority did not effectively administer its Public Housing Development Grant and Section 5(h) Homeownership Programs. HUD provided $3,150,600 in 1990 to construct 30 units. In 1993, the Authority reprogrammed the Development funds to the Section 5(h) Homeownership Program to construct 30 new single-family homes. We found that, as of August 2004, the Authority had not constructed the proposed 30 units and five other homes acquired under the Program remained vacant for well over five years.

South End Project And Disposition Not Properly Administered

The Authority did not properly administer or dispose of its South End project. Specifically, the Authority did not maintain South End's occupied units and included vacant units in its operating subsidy calculations. The Authority requested and received approximately $296,488 in questionable operating subsidy between January 2001 and June 2004 for units at its South End project. The Authority did not: 1) actively pursue the requirements of the conditional disposition approval, 2) invest any Capital funds, 3) re-occupy units that became vacant, and 4) maintain the project. As of May 2004, nine families lived in substandard housing and 12 fewer units were available to other low-income families.

Significant Questionable Expenditures Incurred In The Capital Fund Program

The Authority inadequately planned for its Capital Fund Program activities and improperly allocated costs due to: the quality of Capital Fund Program management, the lack of training, and the use of an outdated Physical Needs Assessment. As a result, the Authority: 1) incurred over $745,000 in ineligible and unsupported costs, 2) inconsistently disbursed Capital Fund Program funds to its projects, and 3) was unable to reconcile its Capital Fund Program grant activity with HUD's records.

The Authority Transferred Public Housing Funds to a Multifamily Project

The Authority inappropriately transferred public housing funds to Northwood Apartments, a multifamily project owned, managed, and administered by the Authority. The Authority transferred $245,000 from its Low-Income Public Housing Program, $325,000 from its Section 8 Program, and $240,344 from its Revolving Fund to subsidize the operating expenses of Northwood Apartments.

The Authority Did Not Use Replacement Housing Factor Funds

The Authority did not utilize $184,334 in Replacement Housing Factor funding due to a lack of management emphasis and oversight. Specifically, the Authority did not establish a plan showing HUD how it would use the funds. The Authority also did not adhere to statutory obligation and expenditure deadlines. Consequently, the Authority lost the opportunity to apply for a second increment of Replacement Housing Factor funds.

Recommendations

We recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office, assures the Authority: reimburse the applicable Program for any inappropriate expenses from non-Federal funds; recaptures Program funds not used; and implements procedures and controls to correct the weaknesses cited in this report

We presented our discussion draft audit report to the Housing Authority's Interim Executive Director and HUD's staff during the audit. We held an exit conference with the Authority's Interim Executive Director on August 17, 2004. The Authority generally agreed with our findings and recommendations cited in our report.

The Authority provided written comments to our discussion draft audit report dated August 20, 2004. We revised the draft report as necessary. We included paraphrased excerpts of the comments with each finding (see Findings 1, 2, 3, 4, and 5). The complete text of the Authority's comments is in Appendix B of this report with the exception of attachments. We provided HUD's Acting Director of the Boston Regional Office of Public Housing Hub with a complete copy of the Authority's comments with the attachments.

Table of Contents

Appendices

Introduction

The Waterbury Housing Authority was created pursuant to Section 8-40 of the Connecticut General Statutes. The Authority contracts with the Federal Government, acting through the Department of Housing and Urban Development (HUD) for financial assistance in the forms of grants and operating subsidies for low-income public housing programs pursuant to the United States Housing Act of 1937, as amended.

A five-member Board of Commissioners governs the Authority and employs an Executive Director to manage the day-to-day affairs of the Authority. Between March and April 2004, the Mayor of the City of Waterbury appointed five new Commissioners to replace the members that either resigned or whose term expired. The former Executive Director resigned in January 2004. From January to August 2004, an interim Executive Director was managing the Authority until the Board of Commissioners employed a new full-time Executive Director. The Authority has approximately 65 employees and the main office is located at 2 Lakewood Drive, Waterbury, Connecticut.

The Authority owns 696 units of Federal Low-Income Public Housing and administers approximately 2,235 Federal Section 8 Program units. From 2001 to 2003, HUD provided over $47 million in Federal subsidies and grants.

Program	***2001***	***2002***	***2003***	***Totals***
Low-Income Public Housing Operating Subsidy	$2,303,424	$2,830,649	$3,629,868	$8,763,941
Section 8	8,868,153	11,135,876	12,208,370	$32,212,399
Capital Fund Program	1,622,309	1,505,260	1,384,592	$4,512,161
Shelter Plus Care[1]	0	945,000	871,200	$1,816,200
Totals	$12,793,886	$16,416,785	$18,094,030	$47,304,701

The United States Housing Act of 1937 created and funded HUD's Public and Indian Housing Program. Low-Income Public Housing Operating Subsidy provides housing authorities with monies to fund the daily operating expenses of its developments. These monies enables housing authorities to keep rents affordable for lower-income families and cover a variety of expenses including administration, maintenance, utilities, tenant services, and protective services.

The Housing and Community Development Act of 1974 authorized the Section 8 Certificate Program, and the Housing and Community Act of 1987 authorized the Section 8 Rental Voucher Program. In October 1998, Congress passed housing reform legislation, including a full merger of the Certificate and Voucher Programs. This legislation eliminated all differences between the two Programs, and it required that the subsidy types merge into one Section 8 Program entitled the Housing Choice Voucher Program. The Section 8 Program is HUD's major Program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.

[1] The Shelter Plus Care Program provides rental assistance for hard-to-serve homeless persons with disabilities in connection with supportive services funded from sources outside the Program. We elected not to review this Program.

The Quality Housing and Work Responsibility Act of 1998 converted HUD's prior modernization initiatives, including the Comprehensive Grant Program, into the Capital Fund Program. Since Fiscal Year 2000, the Capital Fund Program provides funds annually to housing authorities for capital and management activities, including modernization, corrections of physical deficiencies, and development of public housing. HUD awards Capital Fund Program funds to housing authorities using a formula based on the existing and accrued modernization needs of the authorities. Until completion of corresponding regulations at Title 24 of the Code of Federal Regulations (CFR), Section 905, the regulations at 24 CFR 968 continues to apply to assistance made available through the Capital Fund Program. The provisions of 24 CFR 968, with respect to a housing authority's annual statement/action plan was replaced by the Public Housing Agency Plan rule at 24 CFR 903.

In addition to the Low-Income Public Housing Program and assistance, the Waterbury Housing Authority also owns, manages, and administers Section 8 project-based rental assistance for two other projects. In December 1996, the Authority acquired these projects, which operate under Sections 221(d)(3) and 241(f) of the National Housing Act. The projects are Villagewood Apartments and Northwood Apartments. These projects operate under the terms of a Regulatory Agreement between HUD and the Authority; which establishes the rental schedule and limits occupancy to families of low or moderate income.

Audit Objectives

The primary purposes of our audit were to determine whether the Authority: administered its selected Programs efficiently, effectively, and economically; and complied with the terms and conditions of its Annual Contributions Contract, applicable laws, relative directives, and HUD's regulations. The selected programs are: a) Capital Fund Program, b) disposition of the South End project, c) Public Housing Development Grant Program, d) Section 5(h) Homeownership Program, and e) multifamily projects owned, managed, and Section 8 contract administered by the Authority.

Audit Scope and Methodology

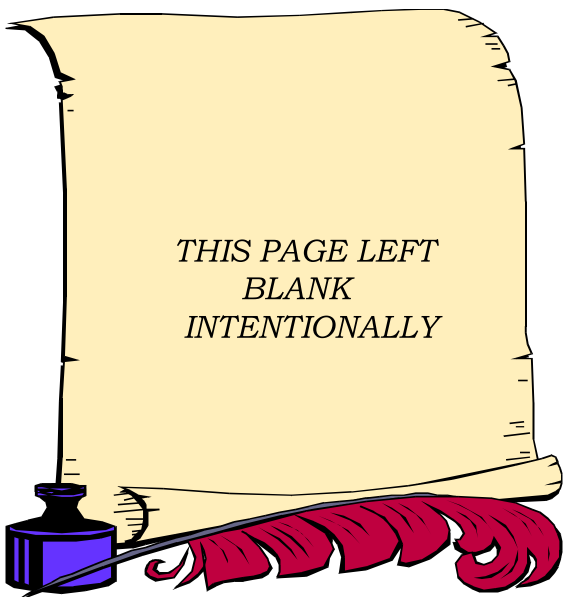
To accomplish the audit objectives, we:

- Reviewed: the applicable Code of Federal Regulations; applicable HUD Handbooks; applicable HUD Notices and Directives; files maintained by HUD's Hartford Field Office; information in HUD's automated systems, such as the Public and Indian Housing Information Center, Line of Credit Control System, Public Housing Agency Plans, and Public Housing Assessment System; HUD's Real Estate Assessment Center physical inspection reports for 1999 through 2003; Independent Public Accountant reports for fiscal years 2001 through

2003; and the minutes of the Waterbury Housing Authority's Board of Commissioners meetings;

- Interviewed: HUD's staff to obtain background information and procedural information; applicable Authority officials to obtain information relating to the Authority's organization, operations, management controls; and its procedures for accounting, administration, procurement, maintenance, capital planning, development, and replacement housing;
- Obtained an understanding of the Authority's management controls relevant to our audit objectives through inquiries, observations, inspection of documents and records, or review of other reports;
- Conducted physical inspections to assess the general condition of the Authority's Low-Income Housing projects; and
- Tested 100 percent of Capital Fund Program expenses incurred between July 1, 2001 and June 30, 2003 for propriety.

We conducted the audit between November 2003 and June 2004. Our audit generally covered the period from July 1, 2001 through June 30, 2003. When appropriate, we extended the audit to include other periods. We conducted our audit in accordance with Generally Accepted Government Auditing Standards.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The Authority Did Not Manage Its Public Housing Development And Homeownership Programs Effectively

The Waterbury Housing Authority did not effectively administer its Public Housing Development Grant and Section 5(h) Homeownership Programs. Specifically, the Authority did not construct any of the proposed 30 units. This condition occurred because the Authority failed to provide adequate oversight and control over the Development Grant and Section 5(h) Homeownership Programs. Consequently, the Authority did not create the additional housing opportunities for low-income persons.

Development Grant Program Purpose

The Public Housing Development Program was established under the United States Housing Act of 1937. The Program authorizes HUD to assist housing authorities with the development and operation of low-income housing projects and financial assistance in the form of grants. The purpose of the Program is to develop units that serve the needs of public housing residents over the long term and have the lowest possible life cycle costs, taking into account future operating and replacement costs, as well as original capital investments (24 CFR 941).

HUD Funds Authority Development Beginning In 1988

During the late 1980s and early 1990s, HUD authorized three Development Grants totaling over $10 million. The following table shows the breakdown and status of each grant, based on HUD's and the Authority's records as of August 2004:

Grant Number	Reservation Date	Development Type	Number of Units	Amount Authorized	Amount Disbursed	Balance (As of: 6/1/2004)
CT26P006012	9/19/1988	New Construction	34	$ 3,512,200	$3,512,200	$0
CT26P006013	9/18/1990 [2]	New Construction	30	3,150,600	856,659	2,293,941
CT26P006015	9/26/1991	Acquisition with Rehabilitation	30	3,361,500	3,361,500	0
Totals			**94**	**$ 10,024,300**	**$ 7,647,280**	**$ 2,293,941**

[2] HUD funded the CT26P006013 Development Grant by two separate reservations. HUD made the initial reservation for $951,700 on September 28, 1989 and made the second reservation for $2,198,900 on September 18, 1990

Development Progress

In the early 1990s, HUD approved the Authority to construct 94 new units with the Development Grants. In late 1992, the Authority completed 34 of the 94 units by constructing nine buildings at five different sites in Waterbury, Connecticut. HUD approved the Authority's request to reprogram the remaining Development Grant funds for its newly developed Section 5(h) Homeownership Program.

Purpose Of The Section 5(h) Homeownership Program

Section 5(h) of the United States Housing Act of 1937 authorized the Section 5(h) Homeownership Program[3]. HUD designed the Program to help low-income families purchase homes through an arrangement that benefits both the buyer and a housing authority that sells the unit. The Program gives the buyer access to an affordable homeownership opportunity and to the many tangible and intangible advantages it brings. Housing authorities retain and reuse the proceeds of sale of low-income housing units to meet other low-income housing needs.

Section 5(h) Homeownership Program Implemented In 1993

In 1993, the Authority adopted a Section 5(h) Homeownership Program. The Authority planned to create 60 homeownership opportunities for its current low-income housing tenants. In July 1993, concurrent with the executed 5(h) Implementation Agreement between the Authority and HUD, the Authority reprogrammed the outstanding development grant funds to the Section 5(h) Homeownership Program to build 30 new single-family detached homes and to acquire and rehabilitate 30 additional single-family detached homes.

Authority Complied With Section 5(h) Homeownership Program Regulations

The Authority generally operated its Section 5(h) Homeownership Program in compliance with HUD's regulations. The Authority appropriately acquired homes and sold them to qualified low-income homebuyers. Additionally, the Authority appropriately controlled a subsequent resale transaction of one of its homes.

Authority Did Not Meet Its Homeownership Goals

As of August 2004, the Authority had not constructed any of the proposed 30 new homes. Therefore, the Authority did not meet its homeownership goals. The Authority acquired 29 existing homes between December 1993 and July 1999.

[3] The Quality Housing and Work Responsibility Act of 1998 authorized the Section 32 Homeownership Program, which replaced the Section 5(h) Homeownership Program. The effective date for the new Section 32 Homeownership Program was April 10, 2003. Previously approved Homeownership Programs continue to operate under the 5(h) rules.

As of August 2004, the Authority rehabilitated and sold 23 homes to its low-income housing tenants (see Appendix C of this report). The Authority incorporated one additional home into its Low-Income Public Housing Program and currently receives operating subsidy for this unit. Therefore, five homes remain unsold as of August 2004.

Authority Did Not Manage the Homeownership Program Efficiently

According to the Authority's implementation schedule, the Authority planned to turn around each home within approximately eight months. The Authority's sale of the homes averaged approximately 25 months. For sales completed between May 1995 and August 2004, the Authority lost an average of approximately $4,000 per sale, despite the rehabilitation work performed. In this period, the Waterbury, Connecticut housing market was declining.

As of August 2004, four of the five unsold homes were vacant for nearly eight years. The fifth home was vacant for just over five years. Meanwhile, the Authority drew down $856,659 from the remaining Development Grant to sustain the Section 5(h) Homeownership Program and maintain the vacant homes. Costs to sustain the Program included salaries and allocations of administrative expenses. Maintenance costs included utility costs, property taxes, landscaping, and pest control. The Authority already drew down all funds under the CT26P006015 Development Grant. While the Authority legitimately spent $856,659 on operating and maintenance costs, these expenditures detracted from the funds available to develop other needed housing. Instead, the Authority should sell the remaining homes and use the proceeds.

Improper Accounting And Reporting Of The Homeownership Program

The Authority needs to reconcile its bank account statements with its own books and records to identify the Section 5(h) Homeownership Program cash reserves. As of April 2004, the Authority's books and records indicated a cash reserve balance of $688,240, which the Authority accumulated through the sale of homes. However, the Authority could not reconcile this amount with its bank accounts. HUD requires each housing authority to establish an auditable system to provide adequate accountability for the receipt, retention, and expenditure of all sale proceeds (24 CFR 906.17). The Authority commingled Section 5(h) Homeownership Program cash reserves with its other program accounts. The Authority should use any remaining cash reserves to sustain the Section 5(h) Homeownership Program instead of drawing down from the remaining Development Grant.

Additionally, the Authority did not submit annual sales reports to HUD. According to Program requirements, housing authorities shall submit annual sales reports to HUD until the authorities complete all planned sales of individual dwellings. Sufficient reporting and record keeping is necessary for HUD to monitor the authority's compliance with its approved homeownership plan.

Authority Has A Need for Low-Income Housing

As of December 2003, over 800 people on the Authority's combined Federal Low-Income Public Housing and Section 8 Programs waiting lists were waiting for housing. For over a decade, the Authority had the opportunity and funding to develop homeownership opportunities, but had not successfully done so. The Authority had not identified any new sites for possible development or developed any new firm proposals.

Poor Management Oversight Contributed To The Deficiencies

The Authority did not actively manage the Section 5(h) Homeownership Program from 1999 through 2003. Specifically, there was no Authority director in charge of the Program during this period. This contributed to no sales activity during this time (see Appendix C of this report). The deficiencies existed due to a lack of effective management oversight. In January 2004, the Authority assigned someone to direct the Program. The Authority also indicated that it suffered from the lack of local support for its programs. Finally, the Authority also indicated it could not obtain suitable sites for its proposed developments and it had problems finding qualified and interested participants. However, the Authority could not support these assertions with documentation. In its original development proposal, the Authority identified 88 sites for development.

The Authority Needs To Take Action

Waterbury, Connecticut needs more low-income housing. The Authority failed to develop this housing despite the availability of funding from HUD for over a decade. The Authority needs to sell its remaining Section 5(h) Homeownership Program homes or incorporate them into its Low-Income Public Housing Program. The Authority also needs to reprogram the remaining Development Grant funds to develop new housing.

Auditee Comments

[Excerpts paraphrased from the Authority's comments on our draft audit report follow. Appendix B, page 50, contains the complete text of the comments for this finding.]

The Authority responded that it plans to develop up to 16 units of low-income public housing with the remaining Development Grant funds.

The Authority also responded that it took the following actions to address the original audit recommendations: 1) the Authority assigned the Resident Initiatives Coordinator to direct the Section 5(h) Homeownership Program, and 2) the Authority sold one of the six remaining 5(h) homes in June 2004. As of April 2004, six 5(h) homes remained unsold.

Additionally, the Authority responded that it plans to take the following additional recommended actions:

1) Sell four 5(h) homes by June 30, 2005 following the completion of renovations;
2) Pursue the conversion of the remaining 5(h) property to a Low-Income Public Housing Program unit; and
3) Construct a new development plan for the remaining Development Grant funds.

The Authority responded that although it has a detailed breakdown of the 5(h) Program cash reserve balance; however, the funds are not actually available because the Authority spent them on Low-Income Public Housing Program operations.

OIG Evaluation Of Auditee Comments

The Authority plans to develop up to 16 Low-Income Public Housing Program units—14 fewer units than the originally proposed 30 units. Had the Authority effectively and timely utilized the Development Grants, more needy families in the City of Waterbury could have been housed. The Authority should complete a formal written plan and submit it to HUD within 60 days. HUD will need to determine: 1) if the plan is viable; and 2) if the plan to construct only 16 units is appropriate when the original development plan was to construct 30 new units.

We acknowledge the selection of the Resident Initiatives Coordinator for the 5(h) Program and we removed the related recommendation from this report. We also verified the closing documents for the 5(h) home already sold and adjusted the finding discussion and recommendations to address the five remaining unsold homes at August 31, 2004.

We also recognize the Authority's actions to sell four of the remaining 5(h) homes and incorporate the last home into the Low-Income Public Housing Program. However, we disagree with the timeframe to sell the homes. During our inspections of these homes in December 2003, we noted that substantial renovations were already in progress. In addition, the Authority originally planned to turn around these homes within eight months.

The missing 5(h) Program cash reserve balance represents a significant accounting weakness that the Authority needs to address. Regardless of the accounting weakness, the Authority should not draw down any additional Development Grant funds for administering the 5(h) Program.

In June 2004, the Authority drew down an additional $83,079 from the Development Grant for 5(h) Program operations. We updated the finding discussion and related recommendations as appropriate to reflect the status of the Grant as of August 2004.

Recommendations

We recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office, assure the Waterbury Housing Authority:

1A. Establishes and adheres to a time frame to sell the remaining five Section 5(h) homes or incorporate the homes into its Low-Income Public Housing Program.

1B. Adjusts the Section 5(h) Homeownership Program cash reserve balance.

1C. Ceases using Development Grant funds for Section 5(h) Homeownership Program expenses.

1D. Develops a new development plan within 60 days and reprogram the $2,293,941 in remaining Development Grant funds from the Section 5(h) Homeownership Program for use with the newly proposed development project.

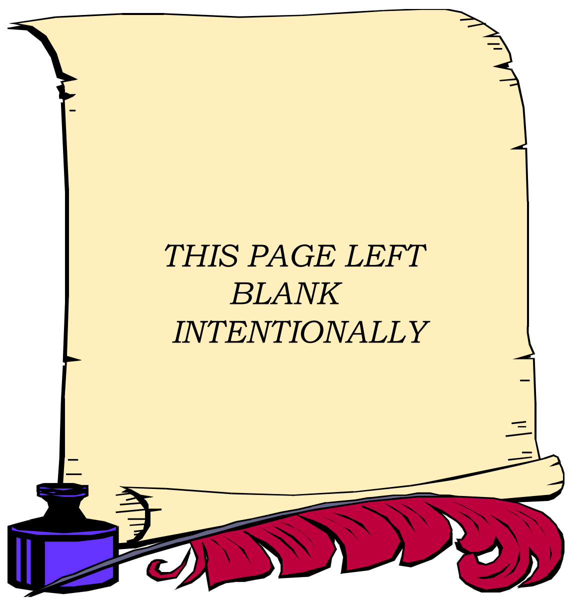
We also recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office:

1E. Evaluates the Authority's plans and established timeframes for completion of the Section 5(h) Homeownership Program and new development project.

1F. Recaptures the $2,293,941 in Grant funds unless the Authority adheres to HUD's approved timeframes.

1G. Prohibits the Authority from drawing down any additional funds from the CT26P006013 Development Grant for use with the Section 5(h) Homeownership Program.

1H. Terminates the Section 5(h) Implementation Agreement upon: 1) the completion of the sales of the remaining six homes; or 2) the completion of their incorporation into its Low-Income Public Housing Program.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South End Project And Disposition Not Properly Administered

The Waterbury Housing Authority did not properly administer its South End Apartments project and the disposition of this project. Specifically, the Authority requested and received approximately $296,488 in questionable operating subsidy between January 2001 and June 2004 for units at its South End project. The Authority was not properly maintaining the project's occupied units and the Authority included vacant units in its operating subsidy calculations. Once it submitted its disposition application to HUD in August 1997, the Authority's management decided: 1) not to invest any money into the project; 2) not to re-occupy units that became vacant; and 3) not to maintain the project. The Authority had not actively pursued meeting the conditions of the disposition approval, yet it continues to not maintain the project and to keep units vacant, while receiving operating subsidy for these units. As a result, tenants are living in substandard housing that is not decent, safe, and sanitary, and there is less affordable housing available to low-income families.

Disposition Authority

Housing Authorities must receive approval from HUD to demolish or otherwise dispose of housing units that they have previously agreed to operate as public housing. The Annual Contributions Contract is the instrument by which HUD agrees to provide annual subsidies to specific publicly owned housing units, in exchange for a commitment from the housing authority to maintain those units for low-income use under the system of rules that governs Federally funded public housing. The Annual Contributions Contract prohibits housing authorities from demolishing these units or disposing of them without the approval of HUD's Secretary. When public housing units outlive their usefulness or can better serve the community in another form, demolition or disposition rules provide the housing authority with an avenue for seeking permission to remove them from the Annual Contributions Contract and thereby deregulate their use.

Disposition Application And Approval

The Authority's reason for applying for disposition of the South End project, a 13-year old project at the time of application, was to allow for expansion of the adjacent business. The owner of this business wanted to expand and approached the Authority to buy the property. This business owner is the brother of the current Mayor of the City of Waterbury, who was elected in 2001. From 1993 to 2001, the current Mayor was a former Connecticut State

Representative. The Mayor also has a financial interest in the business.
Additionally, another local former Congressman was actively working with the Authority and HUD to get this application approved. HUD's Hartford Field Office and its Special Applications Center did not fully support this disposition and the Authority was not the one pushing for the disposition. The former Congressman contacted HUD's former Assistant Secretary for Public and Indian Housing in December 2000 and requested that HUD grant, at least, conditional approval of the Authority's application.

In January 2001, HUD's Special Applications Center approved the application with conditions. These conditions included gaining site control for the replacement units, environmental requirements, and solicitation of public bids at or above the appraised value of the property. The Special Applications Center also required, as part of its approval, that the Authority remove the seven vacant units from its operating subsidy calculations starting January 2001. The Authority would have to take any additional vacant units out if its operating subsidy calculations when the Authority submitted its revised or next operating subsidy submission. In May 2001, HUD's Hartford Field Office informed the Authority not to remove these units from its operating subsidy calculations until the site control issue was resolved.

Between January 2001 and November 2002, the Authority's files showed very little evidence that it was actively trying to meet the conditions of the approval. The former Congressman was not re-elected in November 2002. After November 2002, the Authority did not take any additional action with regard to meeting the conditions of the disposition approval, specifically gaining site control.

Authority Required To Effectively Operate Its Projects

Part A, Section 4, of the Authority's Annual Contributions Contract dated September 29, 1995, states the Authority 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, and the economic and social well-being of the tenants.

24 CFR 970.12 states until such time as HUD approval may be obtained, the housing authority shall continue to meet its

Annual Contributions Contract obligations to maintain and operate the property as housing for low-income families.

South End Project Not Maintained

The Authority violated its Annual Contributions Contract's obligations. The Authority's officials advised that management made a decision not to invest any money into the South End project, once they submitted their disposition application. The Authority did not perform any preventative maintenance or invest any capital funds into the project, since the disposition application submission. Additionally, we inspected occupied units, which indicated that the Authority did not maintain occupied units, during the same period the Authority received operating subsidy for all 21 units–occupied and vacant. Between January 2001 and June 2004, the Authority received $296,488 in operating subsidy for all 21 units at the South End project.

HUD's Real Estate Assessment Center physical inspection results from 1999 to 2004 showed numerous deficiencies at the South End project. During our inspections, we noted that the Authority did not correct most of the deficiencies identified by HUD's latest Real Estate Assessment Center inspection and the Authority's latest in-house annual inspection in May 2003. Furthermore, the Real Estate Assessment Center identified similar deficiencies each year and found numerous systemic deficiencies. Correcting these deficiencies will require significant cash outlays in order for the Authority to get its units back to lease-up condition.

Tenants Living In Substandard Conditions

Our inspection showed the current tenants resided in substandard housing that was not decent, safe, and sanitary. Our inspection of the project and occupied units identified the following systemic deficiencies:

- Mold problems;
- Exposed wiring;
- Non-Ground Fault Circuit Interrupter outlets near water sources;
- Cable and/or phone wires on the floor at the top of the stairs causing potential tripping hazards;
- Detached front stoops and handrails from entryways;
- Missing or rusted heat covers;

- Backsplashes and counters rotted out due to leaking faucets;
- Floor tiles missing and cracked; sometimes an entire floor surface had no tile;
- Large hole and water stained living room ceilings due to plumbing leaks in upstairs bathrooms;
- Walls and ceilings need painting; and
- Grass growing in the gutters and disconnected downspouts.

The seriousness of these deficiencies is illustrated in our inspections of 20 West Clay Street-Unit C, 10 West Clay Street-Unit C, and 20 West Clay Street-Unit E.

20 West Clay Street, Unit C

Our inspection of 20 West Clay Street, Unit C, in April 2004 identified: 1) a serious mold problem on the bathroom ceiling; 2) non-Ground Fault Circuit Interrupter in the kitchen and bathroom; 3) exposed wiring in the laundry room; 4) water damage on the living room ceiling, due to a leak from the upstairs bathroom; 5) a rotted out backsplash; and 6) cracked and broken floor tiles. Additionally, ceilings were discolored on the second floor, which could indicate a mold problem in the attic as well.

Mold covering Ceiling of Upstairs Bathroom
20 West Clay Street, Unit C

10 West Clay Street, Unit C

Our inspection of 10 West Clay Street, Unit C, in April 2004 identified: 1) non-Ground Fault Circuit Interrupter in

20 West Clay Street, Unit E

the kitchen and bathroom; 2) a missing globe cover in the kitchen; 3) a hole in the living room ceiling due to a leak from the upstairs bathroom; 4) water damaged kitchen ceiling; 5) missing kitchen floor tile; 6) a need for paint on walls and ceilings; and 7) a detached outside handrail and front stoop.

Kitchen Floor Tiles Missing
10 West Clay Street, Unit C

Kitchen Ceiling Water Damaged
10 West Clay Street, Unit C

Our inspection of 20 West Clay Street, Unit E, in April 2004 identified: 1) a missing Ground Fault Circuit Interrupter in the kitchen; 2) missing globe covers in the laundry room and at the top of the stairs; 3) water damage on the living room ceiling, from a water leak in the upstairs bathroom; 4) cracked and missing floor tiles; 5) a rotted out backsplash and damaged countertop; 6) a poorly repaired hole on the bathroom floor; 7) mold growth in bathroom; 8) detached outside handrail and front stoop; and 9) a need for paint on walls and ceilings. Additionally, ceilings were discolored on the second floor, which may indicate a mold problem in the attic as well.

Kitchen Countertop Damaged and Rotted
20 West Clay Street, Unit E

Living room ceiling water stained and damaged
20 West Clay Street, Unit E

Authority's Response To Inspection Results

When we discussed these deficiencies with the Authority's officials, they said it would correct the emergency conditions. The Authority's officials also said they will not correct the other identified items because the Authority lacks the needed funding. The Authority is receiving operating subsidy for all units and it should be correcting all deficiencies. Failure to correct the identified deficiencies violates the Annual Contributions Contract with HUD.

The Authority's officials attributed the condition of the South End project to its decision in August 1997 not to invest any money into this project pending its disposition.

Ineligible Operating Subsidy Received

The Authority continued to request and receive operating subsidy for all 21 units at the South End project between January 2001 and June 2004. During this period, the Authority did not maintain the project nor did it actively pursue disposition. As a result, the Authority received approximately $296,488 in questionable operating subsidy between January 2001 and June 2004. The break down of operating subsidy received for occupied and vacant units are in the following tables:

Vacant Units					
Time Period	Operating Subsidy Per Unit Month	Number of Units	Operating Subsidy Amount Received/Month	Number of Months in Time Period	Total Operating Subsidy Received for Time Period
1/01 to 6/01	$280.80	7	$1,966	6	$11,794
7/01 to 6/02	$338.51	8	$2,708	12	32,497
7/02 to 6/03	$352.72	8	$2,822	12	33,861
7/03 to 6/04	$344.91	8	$2,759	12	33,111
		Total			**$111,263**

Occupied Units					
Time Period	Operating Subsidy Per Unit Month	Number of Units	Operating Subsidy Amount Received/Month	Number of Months in Time Period	Total Operating Subsidy Received for Time Period
1/01 to 6/01	$280.80	14	$3,931	6	$23,587
7/01 to 6/02	$338.51	13	$4,401	12	52,808
7/02 to 6/03	$352.72	13	$4,585	12	55,024
7/03 to 6/04	$344.91	13	$4,484	12	53,806
		Total			**$185,225**

According to 24 CFR 990.108, HUD may allow an authority direct costs for vacant units that are approved for deprogramming; limited to the minimum services and protection necessary to protect and preserve the units until they are deprogrammed. HUD will have to decide whether to allow the Authority direct costs for these units.

Units Not Re-Occupied

The Authority was required to continue to meet its Annual Contributions Contract obligations to maintain and operate the project as housing for low-income families, until HUD approved the disposition application. The Authority decided not to re-occupy vacated units once it submitted the disposition application in August 1997. As of the application submission, families occupied 19 of the 21 units. These units are three-bedroom and four-bedroom units, which are very desirable for low-income families with children. At the time, the Authority received conditional approval by HUD's Special Applications Center nearly three and a half years later, the South End project had only 14 occupied units. Five of the 14 units were vacant over a year and half before disposition approval. Because of the Authority's decision to not re-occupy units, the Authority lost approximately $34,290 in rental income between August 1997 and December 2000.

In 1997, the Authority had a Federal Low-Income Public Housing Program waiting list of approximately 705 people. As of December 2003, the Authority had a Low-Income Public Housing waiting list of approximately 355 people; 268 were for three-bedroom units and 20 were for four-bedroom units. The Authority's decision not to re-occupy units once they became vacant and its lack of action to meet the requirements of the disposition approval resulted in less affordable housing for low-income families.

Inadequate Oversight By The Board Of Commissioners

The Authority's Board of Commissioners did not provide adequate oversight regarding to the South End disposition. The Board's minutes showed very limited discussion of the South End project or the status of the disposition. Between January 2001 and December 2003, the Board of Commissioners went into Executive Session 26 times with no adequate reason provided. Since the minutes do not provide an adequate reason for going into Executive Session, we do not know if the Board of Commissioners discussed the disposition of the South End with the Authority's management.

Authority Did Not Comply with State Requirements

The Authority did not comply with the State of Connecticut's Freedom of Information Act requirements regarding Executive Sessions. Under Section 1-225 of the State's Freedom of Information Act, a public agency may hold an executive session upon an affirmative vote of two-thirds of the voting members. Each public agency must state the reasons for the Executive Session. Section 1-200 of the State's Freedom of Information Act states the public may be excluded from Executive Sessions for reasons such as discussions regarding: 1) employment and terminations; 2) negotiations for pending claims or litigation; 3) security strategy; 4) discussion of the selection of a site or the lease, sale, or purchase of real estate by a political subdivision of the State when publicity would cause a likelihood of increased price; or 5) discussion of any matter which would result in the disclosure of public records, such as draft notes, personnel and medical files, and records of investigations.

When the Authority's Board of Commissioners went into an Executive Session, the minutes of the general meeting did not indicate the specific reason(s) for going into Executive Session. Of the 26 times the Board of Commissioners went into Executive Session, the Authority did not document the reason eight times. For the remaining 18 times, the Authority documented the reason as: personnel matter; personnel issues; pending claims; or personnel matters and pending claims. The Authority did not provide any other details except for the times that the Board of Commissioners made motions to go into Executive Sessions and the times the Executive Sessions ended. Upon inquiry, the Authority's officials could not recall the reasons the Board of Commissioners went into Executive Sessions. The Authority must provide a more adequate explanation for going into Executive Session in its Board minutes.

Disposition Status

As of August 2004, the Authority had not disposed of the South End project. The Authority took the disposition plans out of its draft Public Housing Agency Plan submitted to HUD on April 13, 2004. However, it had not requested approval from HUD's Special Applications Center to withdraw its plans to dispose of the project, as required.

Action Necessary

With the large need for low-income housing in Waterbury, Connecticut, the Authority needs to obtain the required approval from HUD's Special Applications Center for its plans not to dispose of the project and take active steps to get this project back into lease-up condition. The Authority neglected the South End project for nearly seven years and as a result, the project requires large capital outlays. In addition, the Authority needs to reimburse HUD for the ineligible operating subsidy it received for not maintaining the project. Finally, the public is entitled to greater disclosures as to why the Authority goes into Executive Sessions during its Board of Commissioner meetings; thus, the Authority needs to adequately document these reasons.

Auditee Comments

[Excerpts paraphrased from the Authority's comments on our draft audit report follow. Appendix B, pages 50 and 51, contains the complete text of the comments for this finding.]

The Authority plans to take the following recommended actions: 1) formally cancel the disposition of the South End project; 2) perform a capital needs assessment; 3) correct deficiencies and reoccupy the project; and 4) provide adequate documentation in the recording Board of Commissioner's minutes for executive sessions.

The Authority disagrees with the recommendation to repay ineligible operating subsidy. The Authority believes the operating subsidy for all occupied units should be eligible. In addition, the Authority believes that the operating subsidy received for the vacant units is eligible and referred to a HUD letter dated May 2004 issued by the Hartford Field Office.

OIG Evaluation Of Auditee Comments

We acknowledge the Authority's planned actions; since these actions are not complete, the related recommendations remain unchanged.

We revised our recommendation to allow HUD to determine the eligibility for the occupied units that did not meet HUD's requirements for decent, safe, and sanitary conditions.

As the Authority did not actively pursue the disposition, the Authority is not eligible for the operating subsidy for the vacant units. HUD may choose to allow the Authority funding for vacant units, limited to the minimum services necessary to protect and preserve the units. Additionally, we updated the operating subsidy paid through June 30, 2004 because the Authority drew down all its fiscal year 2004 funds. We updated the finding discussion and recommendations accordingly.

Recommendations

We recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office:

2A. Determines if the Authority should be allowed the $185,225 of operating subsidy paid for units that did not meet HUD's requirements for decent, safe, and sanitary conditions.

2B. Determines if the Authority should be allowed any direct costs for the vacant units approved for deprogramming.

We also recommend that HUD's Acting Director of Public Housing Hub, assure the Waterbury Housing Authority:

2C. Reimburses the $111,263 in ineligible operating subsidy from non-Federal funds for the vacant units less any approved direct costs.

2D. Reimburses any operating subsidy paid for occupied units that HUD determines to be ineligible from non-Federal funds.

2E. Follows through with its plans to formally cancel the disposition.

2F. Performs a capital needs assessment of the South End project within 60 days.

2G. Develops a corrective action plan to correct the deficiencies and re-occupy vacant units to avoid losing rental income in addition to the $34,290 already lost.

2H. Adequately documents the reasons that the Board goes into Executive Session.

Significant Ineligible And Unsupported Expenditures Incurred In The Capital Fund Program

The Waterbury Housing Authority inadequately planned for its Capital Fund Program activities and improperly allocated costs. This is attributable to the Authority's poor management over the Capital Fund Program, the lack of training provided to the Authority's staff involved with the Program, and the use of an outdated Physical Needs Assessment utilized as part of the Capital Fund Program planning process. As a result, the Authority: incurred over $745,000 in ineligible and unsupported costs; disbursed Capital Fund Program funds to its projects inconsistently; and was unable to reconcile its Program grant activity with its General Ledger.

Physical Needs Assessment Outdated

The Quality Housing and Work Responsibility Act of 1998 converted HUD's prior modernization initiatives, including the Comprehensive Grant Program, into the Capital Fund Program. Until completion of the new regulations, the regulations at 24 CFR 968 continue to apply to assistance made available through the Capital Fund Program. These regulations require housing authorities to complete a Physical Needs Assessment during the initial year of funding and every sixth year thereafter, as part of an overall Comprehensive Plan (24 CFR 968.315).

The Authority last prepared its Physical Needs Assessment in June 1997. The Authority intends to update its Assessment in 2005--eight years after the completion of its previous one. The Authority submitted a Capital Fund Program Annual Statement and a Five-Year Action Plan related to its planned Capital Fund Program activities as part of its annual Public Housing Agency Plan submitted to HUD. These documents do not substitute for an actual Physical Needs Assessment, which identifies the physical needs of each project.

The Authority Inadequately Planned Capital Fund Program Activities

Despite receiving additional Capital Fund Program funds in fiscal year 2003, the Authority did not adequately plan for its Program activities. Specifically, the Authority utilized an outdated Physical Needs Assessment in planning its Capital Fund Program activities and its staff indicated that they did not receive any training regarding the Program. This is attributable to the Authority's mismanagement of the Capital Fund Program. HUD awarded the Authority additional funds to reward its timely obligation of Capital Fund Program funds.

The Authority's Staff Lacked Formal Training On The Capital Fund Program

The Authority's primary staff working with the Capital Fund Program said they had not received any formal training on the Program or its predecessor, the Comprehensive Grant Program. They also said they were not familiar with the Capital Fund Program's rules and regulations. Staff training was not included in the Authority's 2000, 2001, or 2003 Capital Fund Program Annual Statements. The 2002 Capital Fund Program Annual Statement included $30,000 for management training; however, the Authority had not expended any of these funds as of December 31, 2003.

Capital Fund Program Costs Improperly Allocated

The Authority was not properly allocating its Capital Fund Program costs to its General Ledger. A review of the General Ledger history for each of the Capital Fund Program grants showed the Authority allocated expenditures in excess of available funds and continues to allocate expenditures in excess of available funds. As a result, the Authority posts large, lump-sum reclassification entries at the end of its fiscal year. These reclassifications make it very difficult to assess the Capital Fund Program costs. Despite these reclassifications, the Authority continued to charge costs to its Capital Fund Program grants in excess of available funds.

Impact On Capital Fund Program Activities

Because of the Authority's inadequate planning and improper allocation of its Capital Fund Program activities, the Authority:

- Incurred significant ineligible and unsupported costs;
- Was unable to reconcile its Capital Fund Program grant activity with HUD's records; and
- Disbursed Capital Fund Program funds to its projects in an inconsistent manner.

Authority Received $4.6 Million In Capital Fund Program Funds

For fiscal years 2000 to 2003, HUD awarded the Authority $4,671,161 in Capital Fund Program funds. As of March 4, 2003, the Authority drew down $3,700,970. The following table shows the awarded amounts and draw downs for each of the Authority's Program grants:

Capital Fund Program Grant	Awarded	Disbursed
CT26P006501-00	**$1,567,046**	**$1,567,046**
CT26P006501-01	**$1,598,855**	**1,560,377**
CT26P006501-02	**$1,505,260**	**573,547**
Totals	$4,671,161	$3,700,970

Ineligible And Unsupported Costs Identified

Our review identified $745,058 in ineligible and unsupported Capital Fund Program costs—$652,540 classified as management improvements and $92,518 classified as dwelling structures, which are two spending categories of the Capital Fund Program.

Capital Fund Program Grant	Management Improvements		Dwelling Structures		Totals
	Ineligible	Unsupported	Ineligible	Unsupported	
CT26P006501-00	$ 51,194	$156,842	$0	$0	**$208,036**
CT26P006501-01	176,866	158,086	0	0	**334,952**
CT26P006501-02	0	109,552	92,518	0	**202,070**
Totals	**$228,060**	**$424,480**	**$92,518**	**$0**	**$745,058**

Ineligible And Unsupported Management Improvement Costs

The Authority used $228,060 under the management improvements line item for payments to at least four different vendors relating to the preparation of vacant units for the next tenant, otherwise known as "unit turnaround". Unit turnaround activities are normal operating expenses for a housing authority and are not eligible Capital Fund Program expenses (24 CFR 968.112(g)(1)).

The unsupported management improvement costs relate to three major categories including: 1) $143,984 for rehabilitation salaries and benefits; 2) $27,064 for the Berkeley Heights Tenant Council; and 3) $230,000 in salaries and benefits for the Authority's Police Officers. The Authority did not provide support for the rehabilitation salaries and benefits; therefore, HUD needs to determine the eligibility of these costs. The Authority claimed the Berkeley Heights Tenant Council is duly organized Resident Council. The Authority provided the Tenant Council $1,592 per month for operating costs. The Authority was in the process of preparing a detailed report of all Resident Council expenditures. HUD will need to determine the eligibility of these costs. Finally, the Authority was able to sufficiently support expenses for two of the four Police Officers. The third Officer's certification expired in 2001 and the Authority did not support the payments for the fourth Officer. The Authority needs to provide support for all Officers' charged to the Capital Fund Program.

The remaining $23,432 in unsupported cost was miscellaneous expenses. HUD needs to determine if these costs are eligible as well. See Appendix D of this report for a detailed breakout of all the ineligible and unsupported Capital Fund Program costs by grant.

Ineligible Dwelling Structure Cost

Of the $2,772,434 received by the Authority for dwelling structures, $92,518 was for ineligible expenditures. Specifically, the ineligible cost of $92,518 related to a duplicate entry posted by the Authority. The Authority agreed that this was an ineligible cost.

Authority Needs To Reconcile Capital Fund Program Activity With HUD's Records

The Authority reconciled the total Capital Fund Program drawdowns with its general ledger; however, the Authority needs to reconcile the ledger's line items with the line items in HUD's records through the Line of Credit Control System. The Authority should provide this reconciliation to HUD for review and initiate the necessary budget revisions. The Authority expects to be able to support its expenditures after it completes this reconciliation.

Authority Distributes Capital Fund Program Funds Inconsistently Among Its Projects

We examined the amount of Capital Fund Program expenditures by project and by age of project. This review indicated that the Authority inconsistently distributed its Capital Fund Program funds amongst its projects. As an example, the Authority's largest project, Berkeley Heights, a 300-unit, 50-year old project, received only three percent of the overall Capital Fund Program actual/planned funding from the 2000 through the 2004 Program Grants. In contrast, Springbrook Apartments, a 56-unit, 23-year old project, received 16 percent of the overall Capital Fund Program actual/planned funding from the 2000 through the 2004 Program Grants.

The following table shows ann analysis of the Authority's Capital Fund Program expenditures:

Development Name	Occupancy Date	Number of Units	Average Program Expenditures per Unit; Actual/Planned (2000-2004)
Berkeley Heights	**12/3/1953**	**300**	**$141**
Bergin Apts.	**9/12/1972**	**76**	**$1,179**
Oak Terrace Apt.	**11/6/1971**	**54**	**$2,480**
Pearl Lake Apts.	**12/16/1970**	**39**	**$1,534**
Springbrook Apts.	**8/1/1971**	**56**	**$4,028**
Truman Apts.	**1/3/1974**	**80**	**$2,743**
Austin Rd. Apts.	**8/1/1982**	**36**	**$4,550**
South End Apts.	**2/1/1984**	**21**	**$2,230**
Scattered Sites	**8/1/1992**	**34**	**$80**

Capital Fund Program Funds To Correct Physical And Management Deficiencies Reduced

The Authority's inadequate planning for Capital Fund Program activities and improper allocation of Program funds resulted in the Authority incurring a number of ineligible and unsupported expenditures. Because of these ineligible and unsupported expenditures, less Capital Fund Program funds were available to correct physical and management deficiencies and keep units in the Authority's housing portfolio safe and desirable places to live. The ineligible and unsupported costs represent funding that otherwise could have been used to improve the Authority's physical and management deficiencies and adequately maintain the Authority's housing portfolio.

Auditee Comments

[Excerpts paraphrased from the Authority's comments on our draft audit report follow. Appendix B, pages 51 and 52, contains the complete text of the comments for this finding.]

The Authority took the following actions to address the audit recommendations: 1) determined that no funding was available from its previous Low-Income Public Housing Program Operating budgets; and 2) completed a reconciliation of its Capital Fund Program activity.

The Authority plans to take the following recommended actions: 1) send appropriate staff to training for the Capital Fund Program; and 2) update its physical needs assessment and make any necessary adjustments to its Capital Fund Program Annual Statements and/or Five-Year Action Plan.

Concerning the unsupported costs, the Authority believes that all costs are eligible and it provided supporting documentation for consideration.

Additionally, the Authority acknowledged the $92,518 ineligible cost, but did not indicate that it would reimburse the Capital Fund Program. The Authority also requested that HUD not freeze the remaining Capital Fund Program funding.

OIG Evaluation Of Auditee Comments

We acknowledge the Authority's determination that no funding is available from previous Operating Budgets. Therefore, we removed the related recommendations from this report.

We reviewed the Authority's reconciliation of Capital Fund Program activity; however, the activity was not reconciled with HUD's records through the Line of Credit Control System. Thus, we revised our recommendations accordingly.

In addition, we reviewed the Authority's documentation for the unsupported costs. As a result, we identified $320,578 in ineligible costs and $424,480 in unsupported costs. We revised the finding discussion and recommendations accordingly.

Finally, HUD initiated an automatic review of the Authority's Capital Fund Program vouchers submitted for payment in response to our recommendation. Therefore, we removed the recommendation from this report.

Recommendations

We recommend that HUD's Acting Director of the Public Housing Hub, Boston Regional Office:

3A. Reviews the Authority's reconciliation with HUD's records.

3B. Determines if the Authority needs to perform Capital Fund Program budget revisions due to the results of the reconciliation.

We also recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office, assure the Waterbury Housing Authority:

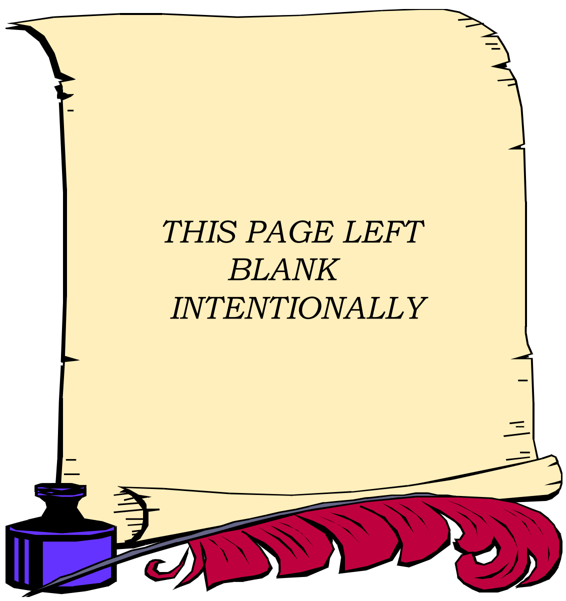
3C. Provides a reconciliation of its Capital Fund Program activity with HUD's records within 30 days.

3D. Reimburses its Capital Fund Program $320,578 from non-Federal funds for the ineligible costs cited in this finding.

3E. Provides documentation to support the $424,480 in unsupported costs cited in this finding. If the Authority cannot provide documentation, then the Authority should reimburse its Capital Fund Program from non-Federal funds for the appropriate amount.

3G. Provides adequate training to its staff working directly on the Capital Fund Program.

3H. Updates its Physical Needs Assessment and makes any necessary adjustments to its Capital Fund Program Annual Statements and/or Five-Year Action Plan.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The Authority Transferred Public Housing Funds To A Multifamily Project

The Waterbury Housing Authority inappropriately transferred $245,000 from its Low-Income Public Housing Program to Northwood Apartments. Northwood Apartments is one of two multifamily projects owned, managed, and administered by the Authority. Northwood Apartments incurred operating losses of approximately $800,000over the last two years. The Authority transferred $245,000 from its Low-Income Public Housing Program, $325,000 from its Section 8 Program, and $240,344 from its Revolving Fund to subsidize the operating expenses of Northwood Apartments. As a result, these funds were not available for the intended Programs.

Public Housing Funds Intended For Public Housing Projects

HUD entered into an Annual Contributions Contract for low-income projects with the Authority for all of its Public Housing on September 28, 1995. Under this Annual Contributions Contract, HUD requires the Authority to use its public housing funds for costs of the operation of the projects under the Contract. The Contract defines operating expenditures as all costs incurred by the Authority for administration, maintenance, and other costs that are necessary for the operation of the projects. The Contract defines project as Public Housing developed, acquired, or assisted by HUD under the Housing Act of 1937, other than under Section 8 of the Act. The term includes all real and personal property, tangible and intangible, which the Authority holds or acquires in connection with a project covered under the Contract.

Authority Acquired Two Multifamily Projects

In December 1996, the Authority acquired a 182-unit project called Northwood Apartments and a 164-unit project called Villagewood Apartments. Each of these projects have two HUD-insured loans—one under Section 221(d)(3) of the National Housing Act and the other under Section 241(f) of the National Housing Act. Additionally, each project receives subsidy under HUD's Section 8 Program for the majority of its units. As of February 4, 2004, Northwood Apartments and Villagewood Apartments had 161 and 132 subsidized units, respectively.

Northwood Apartments Plagued with Financial Difficulties

Although Villagewood Apartments was able to meet its financial obligations, Northwood Apartments incurred operating losses of $227,883 during fiscal year 2002 and $572,633 during fiscal year 2003. These losses resulted from the project's high number of vacant units resulting in lost rent revenue of $277,628 during fiscal year 2002 and $474,409 during fiscal year 2003. Of the 161 subsidized units, the Authority only had 104 under lease at June 30, 2003, leaving 57 units (35 percent) vacant. The Authority's officials said many of the units were not livable and required large amounts of capital to repair them before they would be suitable for re-leasing.

Authority And City Disputed Tax Rates For Two Multifamily Projects

Contributing further to the financial difficulties of Northwood Apartments was the large payments made for property taxes and other alternative property tax payments known as Payments-In-Lieu-of-Taxes. The Authority and the City of Waterbury disagreed on the tax amounts for Northwood Apartments and Villagewood Apartments. The Authority believed the projects should be subject to the Payments-In-Lieu-of-Taxes rate while the City believed the projects should be subject to the regular property tax rate. Ultimately, the City returned both projects to the regular tax rolls with regular taxes retroactive to October 2001. Under the regular rate, Northwood Apartments owed $425,071 due on March 2003. Additionally, Northwood Apartments was delinquent on its Payments-In-Lieu-of-Taxes for December 1996 to September 2001 for another $556,677. The Authority paid the delinquent Payments In-Lieu of Taxes in 2002 and paid the retroactive regular tax payments in 2003.

Authority Transferred Over $810,000 To Northwood Apartments

Because of the financial difficulties of Northwood Apartments, the Authority transferred $570,000 from its Low-Income Housing and Section 8 Programs to Northwood Apartments. In addition, the project was unable to reimburse the Authority's Revolving Fund $240,344 because of insufficient funds to meet operating expenses.

Fund	Amount	Source of Funds
Low-Income Public Housing General Fund	$75,000	Unknown
Low-Income Public Housing General Fund	70,000	Bond Proceeds
Low-Income Public Housing	100,000	Unknown
Section 8 Fund	185,000	Administrative Fee Reserve
Section 8 Fund	40,000	Unknown
Section 8 Fund	100,000	Administrative Fee Reserve
Revolving Fund	240,344	Unknown
Total	$810,344	

$385,000 Transferred to Pay City

The Authority transferred $285,000 from its Section 8 Fund and $100,000 from its Low-Income Public Housing

General fund to pay property taxes and Payments In-Lieu of Taxes for Northwood Apartments.

NorthwoodTax Payment	Date Posted toGeneral Ledger	Amount Diverted to Northwood	Date Posted to General Ledger	Source of Funds
$185,326	3-24-2003	$185,000	4-30-2003	Administrative Fee Reserve
$90,055	12-31-2003	$100,000	7-31-2003	Low-Income Public Housing General Fund
$90,055	1-29-2004	$100,000	1-31-2004	Administrative Fee Reserve

$185,000 Transferred to Cover Northwood Apartments Operating Expenses

The Authority also transferred $185,000 for operating expenses. Northwood Apartments' audited financial statements for its fiscal year ended June 30, 2002 showed a $115,000 note payable from Northwood Apartments to the Authority to be used for Northwood Apartments' operating expenses. The Authority funded this $115,000 note through a $75,000 transfer from the Low-Income Public Housing General Fund and a $40,000 transfer from the Section 8 Fund. Under the terms of the note, Northwood Apartments had to repay the Authority only if the project generated surplus cash. The audited financial statements of Northwood Apartments for the fiscal year ended June 30, 2003 showed the Authority forgave this note payable, and reclassified the funds as a capital contribution to Northwood Apartments. A transfer of $70,000 from the Low-Income Public Housing General Fund to Northwood Apartments on April 30, 2003 occurred. The Authority could not provide an explanation for this transfer. Considering the financial difficulties of the project, the transfer was likely to cover operating expenses.

Northwood Apartment owes Authority Revolving Funds $240,344

Northwood Apartments also owes the Authority's Revolving Fund $240,344 for operating expenses paid on its behalf for the months of April and May 2004. Essentially, the Authority's Revolving Fund was subsidizing the Authority's Northwood Apartments until the project was able to reimburse the Fund. The Authority reimbursed the Fund from many different of the Authority's programs; therefore, the exact source of funds used to subsidize Northwood Apartments was unclear.

Section 8 Administrative Fee Reserves May Be Used For Other Housing Purposes

HUD and the Authority entered into a separate Annual Contributions Contract for the Section 8 Rental Certificate and Voucher Program on June 4, 1998. Under this Contract, HUD requires the Authority to place any program receipts that exceed program expenditures into an administrative fee reserve. HUD allows the Authority to use funds in the administrative fee reserve for other housing purposes if permitted by State and local law.

Authority Plans To Sell Multifamily Properties

In May 2004, the Authority accepted a $12,750,000 bid from an independent third party for the purchase of Northwood Apartments and Villagewood Apartments. The Authority's officials said the Authority hopes to have a formal purchase and sales agreement finalized by mid-June 2004; however, it does not expect to complete the sale until October 2004.

Transfers Likely To Continue Until Sale Completed

The Authority's Northwood Apartments will continue to face shortfalls in its operating cash flow until the Authority finalizes the sale. It is likely that Northwood Apartments will owe substantially more to the Authority's Revolving Fund before the finalization of the sale. The Authority expects that the sales proceeds will be sufficient to cover all monies owed to the Revolving Fund.

Authority Could Use Proceeds From Planned Sale To Repay Transferred Funds

To sustain the Authority's multifamily project during a period of operating shortfalls, the Authority transferred over $810,000 from its Public Housing and Section 8 Programs. As a result, fewer funds were available for the Programs. The Authority needs to continue its planned sale and return all transferred funds to the appropriate Program.

Auditee Comments

[Excerpts paraphrased from the Authority's comments on our draft audit report follow. Appendix B, pages 52 and 53, contains the complete text of the comments for this finding.]

The Authority took the following recommended actions: 1) ceased transferring Low-Income Public Housing Program funds to Northwood Apartments; 2) reconciled Northwood's books to the other Federal program accounts; and 3) executed a sales contract with the prospective buyer of Northwood and Villagewood Apartments.

The Authority plans to take the following recommended actions: 1) place all sale proceeds in a restricted account; 2) reimburse the other Federal programs affected by the transfers from the restricted account; and 3) establish a plan for the use of the remaining sale proceeds.

OIG Evaluation Of Auditee Comments

We recognize the Authority completed actions in regards to our original recommendations and its agreement to implement our additional recommendations. However, this does not constitute final resolution.

The Authority needs to: 1) finalize the sale; 2) use the sales proceeds to repay the other Federal programs; and 3) develop a viable plan for alternate reimbursement if the sales proceeds do not fully reimburse the other Federal programs.

Recommendations

We recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office:

4A. Verifies that the Authority ceased transferring Low-Income Public Housing Program funds to Northwood Apartments.

4B. Reviews the Authority's reconciliation of all accounts used to identify and quantify the sources for all transfers to the multifamily properties.

We also recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office, assure the Waterbury Housing Authority:

4C. Establishes and adheres to a timeline to complete the sale of Northwood and Villagewood Apartments.

4D. Places all sale proceeds in a restricted account.

4E. Uses non-Federal funds to reimburse $485,344 to the Low-Income Public Housing Program ($245,000) and the Revolving Fund ($240,344) for the ineligible costs cited in this finding as of May 31, 2004).

4F. Provides documentation to support the funding source for the $240,344 transferred from the Authority's Revolving Fund to its Northwood Apartments to determine whether the transferred funds were used appropriately. If supporting documentation cannot be provided to identify the funding source, the Authority should reimburse its Revolving Fund the appropriate amount.

4G. Reimburses the appropriate program for any funds transferred after May 31, 2004 from non-Federal funds.

4H. Establishes and adheres to a plan to use any remaining proceeds from the sale of the properties in accordance with State and local law.

The Authority Did Not Use Replacement Housing Factor Funds

The Waterbury Housing Authority did not utilize $184,334 in Replacement Housing Factor funding due to a lack of management emphasis and oversight. Specifically, the Authority did not establish and submit a plan to HUD in a timely manner to show how the Authority would use the funds, and did not adhere to statutory obligation and expenditure deadlines. As a result, the Authority lost $68,725 in Replacement Housing Factor funding and may lose another $115,609 in funding for replacement housing needs. Additionally, the Authority lost the opportunity to apply for a second increment of Replacement Housing Factor funds.

Purpose Of Replacement Housing Factor Funds

HUD provides Replacement Housing Factor funds in five-year increments to housing authorities that have a reduction in units attributable to demolition or disposition. Any reduction in units will decrease Capital Fund Program funds available to a housing authority. Housing authorities must make reasonable progress on the use of Replacement Housing Factor funding in accordance with HUD's requirements and regulations. To demonstrate reasonable progress, Replacement Housing Factor funds must be obligated within: 1) 24 months from the date that the funds become available; or 2) with specific HUD approval, 24 months from the date the housing authority accumulates adequate funds to undertake replacement housing. Additionally, housing authorities must only use the funding for replacement housing purposes. (24 CFR 905.10(i))

Authority Authorized $184,334 In Replacement Housing Factor Funds

As of August 2004, HUD reserved $184,334 in Replacement Housing Factor funding for the Authority for the 2000 to the 2004 grant years. The following table shows the breakdown of each grant:

Grant Number	Obligation Deadline	Disbursement Deadline	Amount Reserved	Amount Obligated	Amount Disbursed	Balance
CT26R006501-00	9/30/2003	9/30/2005	$22,988	$0	$0	$22,988
CT26R006501-01	9/30/2003	9/30/2005	23,454	0	0	23,454
CT26R006501-02	6/30/2004	6/30/2006	22,283	0	0	22,283
CT26R006501-03	9/16/2005	9/16/2007	53,272	0	0	53,272
CT26R006501-04	Not established	Not established	62,337	0	0	62,337
Totals			$184,334	$0	$0	$184,334

While HUD reserved funding for the Authority for the 2004 grant year; HUD had not authorized or spread the funding among the various budget line items as of August 2004.

Replacement Housing Factor And Public Housing Agency Plan Requirements Not Met

For Replacement Housing Factor funding received before fiscal year 2003, all housing authorities regardless of their intent to request a second funding increment must submit to the local HUD Field Office a Replacement Housing Factor Plan for the use of the first funding increment. The plan was due by May 30, 2003 or the due date of the housing authority's Annual Plan for that year, whichever was later. Furthermore, housing authorities that did not submit a Replacement Housing Factor Plan will have an obligation and expenditure commencement date based on the date when HUD made the funds available for each grant. Any housing authorities that do not adhere to obligation and expenditure deadlines face the loss of Replacement Housing Factor funds.

Due to the timing of its annual Public Housing Agency Plan, the Authority had a Replacement Housing Factor Plan deadline of May 30, 2003. The Authority did not submit the plan by May 30, 2003. The Authority had not addressed Replacement Housing Factor funding in any of its annual Public Housing Agency Plans. Housing authorities must provide an Annual Statement/Performance and Evaluation Report for each of its Replacement Housing Factor grants with each Public Housing Agency Plan as required by HUD Notice PIH 2003-07.

Authority Lost $68,725 In Replacement Housing Factor Funds And May Lose Additional Funds

The Authority can no longer use $68,725 in Replacement Housing Factor funds from its 2000 through 2002 grants because it did not obligate these funds timely. According to HUD's Fiscal Year 2003 Appropriations Act, HUD must recapture any amounts made available for Fiscal Years 1999 through 2003 that remain unobligated by the established deadlines. The Authority should adhere to the obligation and expenditure deadlines for the remaining grants to avoid losing future funding, including the $115,609 already reserved for grant years 2003 and 2004.

Additional Funding Increment No Longer Available To The Authority

The Authority lost its chance for a second five-year block of Replacement Housing Factor funding because it failed to meet obligation and expenditure deadlines during the first funding increment. Any housing authority that fails to meet the deadlines will not receive any Replacement Housing Factor funding for the second increment. The Authority did not receive any specific HUD approval for the extension of obligation deadlines. Additionally, the Authority did not submit a Replacement Housing Factor Plan by May 30, 2003, as required. In December 2003, HUD's Hartford Field Office notified the Authority that it did not meet this regulatory requirement. As a result, the Authority will not receive any Replacement Housing Factor funding under the second increment.

Poor Management Oversight Contributed To The Deficiency

The Authority did not provide sufficient management oversight over the Replacement Housing Factor grants. The Authority did not take action in response to HUD's requirements and directives. One of the Authority's former Executive Directors did not communicate effectively or otherwise share knowledge of the grants with the rest of the Authority, namely with the Board of Commissioners and Finance Department. A review of the documented minutes of the Board of Commissioner's meetings and our discussions with the Authority's officials indicated a lack of awareness of the Replacement Housing Factor Program.

Auditee Comments

[Excerpts paraphrased from the Authority's comments on our draft audit report follow. Appendix B, page 53, contains the complete text of the comments for this finding.]

The Authority agreed that it did not meet the requirements for the use of the Replacement Housing Factor grants. The Authority requested that HUD consider allowing the Authority to use all Replacement Housing Factor funds. The Authority will submit a Replacement Housing Factor Plan if the Authority is still eligible to use the funds.

OIG Evaluation Of Auditee Comments

If a housing authority does not obligate Replacement Housing Factor funds as required, the authority cannot use the funds. HUD must recapture these funds in accordance with its Fiscal Year 2003 Appropriations Act. Since this requirement is statutory, HUD cannot waive the implementation of this provision.

In August 2004, HUD made changes to the Authority's obligation and disbursement deadlines. As a result, funds for the 2001 and 2002 Replacement Housing Factor grants were at risk of recapture. Additionally, HUD reserved the fifth year of funding for the Authority. We incorporated this updated information into our finding.

HUD must determine if the Authority is eligible to use the remaining Replacement Housing Factor grant funds. HUD's regulations stipulate that housing authorities may only use the funds for replacement housing needs having a reduction in units attributable to demolition and disposition of units during the period. Since the Authority plans to cancel the disposition process of the South End project, the Authority may not be eligible to use the Replacement Housing Factor funding.

Recommendations

We recommend that HUD's Acting Director of Public Housing Hub, Boston Regional Office:

5A. Recaptures and reprograms the $68,725 reserved under the 2000 through 2002 Replacement Housing Factor grants.

5B. Determines if the Authority is eligible to use the remaining $115,609 in Replacement Housing Factor funding given the proposed cancellation of the South End project (see Finding 2 of this report). If the Authority is no longer eligible to use the remaining Replacement Housing Factor funding, then recapture the funds. If the Authority is still eligible to use the remaining funding, ensure the Authority submits a Replacement Housing Factor Plan within 60 days or risk recapture.

Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to meet its goals are met. Management controls also include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Controls over the requisitioning funds from HUD.
- Controls over the planning and monitoring of routine maintenance, capital needs, disposition of units, replacement housing, and other development activities.
- Controls over the timely obligations and expenditures of grant funds.
- Controls over computer-processed data.
- Controls to ensure costs incurred were for eligible activities, properly supported by appropriate source documentation, and were allowable as specific grant or program expenditures.
- Controls over accounting practices, including cash disbursements and bank reconciliations.
- Controls over procurement practices.
- Controls over HUD reporting requirements.

We assessed all of the relevant control categories identified above during our audit of the Waterbury Housing Authority's selected programs.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the items on the following page are significant weaknesses:

- The Authority lacked a system in place to ensure the timely obligation and expenditure of grant funds (see Findings 1 and 5).

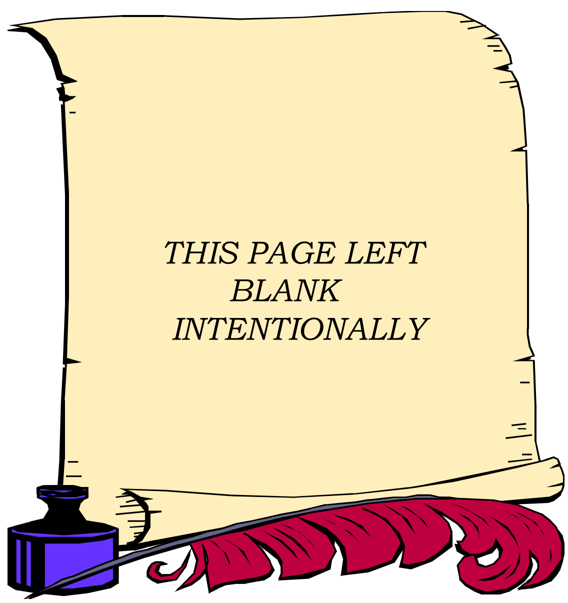
- The Authority's controls were weak to ensure it completed development and replacement housing activities timely or in accordance with HUD's approved development proposals (see Findings 1 and 5).
- The Authority lacked a system to ensure the timely disposition of units approved for disposition (see Finding 2).
- The Authority failed to ensure costs incurred were for eligible activities, properly supported by appropriate source documentation, and were allowable as specific grant or program expenditures (see Findings 3 and 4).
- The Authority lacked effective accounting policies and procedures to ensure that its Capital Fund Program books and records were auditable (see Finding 3).

Follow-Up On Prior Audits

This is the first audit of the Waterbury Housing Authority's Capital Fund Program, disposition of the South End project, Public Housing Development Grant Program, Section 5(h) Homeownership Program, and multifamily projects owned, managed, and administered by the Authority.

The Authority hired an Independent Public Accountant to review their financial statements for the fiscal year ended June 30, 2002. The Accountant issued their report on March 5, 2003. This report included a finding relating to deficiencies in annual Capital Fund Program reporting to HUD. Specifically, the Accountant reported that the expenditures recorded in the Authority's General Ledger did not agree to the expenditures reported on the Annual Statement/Performance and Evaluation Report filed with HUD for the period ended December 31, 2001. This finding was significant to our audit objectives relating to the Capital Fund Program.

The Authority hired the same Accountant to report on the financial statements for the fiscal year ended June 30, 2003. The 2003 Accountant's report showed that the Authority implemented corrective action to address the 2002 issue; however, we determined that the condition still exists and the actions taken by the Authority were not adequate (see Finding 3 of this report).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Schedule Of Questioned Costs And Recommendations For Funds To Be Put To Better Use

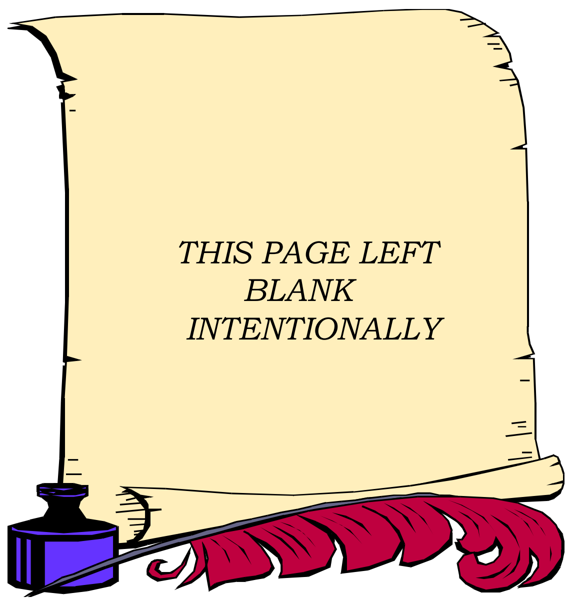
Recommendation Number	*Questioned Costs*			*Funds Put To Better Use* [4/]
	Ineligible [1/]	Unsupported [2/]	Unnecessary/ Unreasonable [3/]	
1D				$2,293,941
2A		$185,225		
2C	$111,263			
2G				34,290
3E	320,578			
3F		424,480		
4E	245,000			
4F		240,344		
5A				68,725
5B				115,609
Totals	**$676,841**	**$850,049**	**$0**	**$2,512,565**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local polices or regulations.

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

3/ Unnecessary/Unreasonable costs are those costs not generally recognized as ordinary, prudent, relevant, and or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

4/ Funds Put to Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented resulting in reduced expenditures in subsequent period for the activities in question. Specifically, this includes costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.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Auditee Comments

HOUSING AUTHORITY OF THE CITY OF WATERBURY

2 Lakewood Road
Waterbury, Connecticut 06704

Telephone (203) 596-2640
Fax (203) 757-7850

August 19, 2004

Timothy Bannon
Senior Auditor
US Department of Housing & Urban Development
Office of Inspector General
One Corporate Center
19th Floor
Hartford, CT 06103

Re: Responses to Audit Findings

Dear Mr. Bannon:

Enclosed please find the Waterbury Housing Authority responses to the audit findings as outlined to us in your audit.

If after reviewing our responses you require any further clarification or have any additional questions please do not hesitate to contact us.

Sincerely,

Silvio Broccoli

Silvio Broccoli
Interim Executive Director

File

Response to I.G. Audit

Public Housing Development and Homeownership Programs

1a.) The Housing Authority has already assigned a person to direct the homeownership program. The Resident Initiatives Coordinator has the responsibility for the implementation of the 5H Homeownership Program.

1b.) The Housing Authority has sold, the closing has taken place, on 89 Morton Road. Four of the remaining five properties have been promised to three Section 8 participants and one Public Housing participant. All buyers have been pre-qualified for their mortgages and completed a required homeownership course provide by Neighborhood Housing Services. These properties will be sold as soon as the necessary renovations have been completed. We expect to close on all four properties by June 30, 2005. The only property that has not been sold is 88 Circular Ave. The Housing Authority will pursue the conversion of 88 Circular to an LIPH Unit.

1c.) The Housing Authority has a detailed breakdown of the $688,240 cash reserve balance. Although the Waterbury Housing Authority books and records indicate the above balance, the money is not actually available. This money was commingled with LIPH Funds and was expended on LIPH operations. The Authority's interpretation of our 5H Homeownership Plan indicates this was an eligible expenditure.

1d.) The Housing Authority will construct a new development plan for the remaining development grant funds. The Housing Authority has already purchased a site which will accommodate ten units. The Authority is currently looking for another site which will accommodate another five or six units. The Housing Authority will set up a meeting with the HUD area office to discuss its plans in detail. The Housing Authority has already prepared a Request for Qualifications for Architectural Services to design the above mentioned units. See Exhibit A.

South End

2a.) With regards to the $274,759.00 in ineligible operating subsidy the Authority offers the following:

> The Authority requests the opportunity to recalculate the $274,759.00. We are in the process of accumulating all necessary information to accurately perform the calculation. The Authority believes that they should be paid for all occupied units. The Authority will perform a calculation on long term vacancies and utilities in accordance with 24 CFR 990.108 and 990.107. The Authority will

work in conjunction with the HUD area office to assure the accuracy of the calculations. However, based on a letter from the HUD area office dated May 4, 2001 stating that no adjustments will be made to the performance funding system for vacant units until the South End issue is resolved. The Authority contends that all the vacant units should be eligible for operating subsidy. With regards to the condition of the units the Housing Authority did respond to tenant complaints at the South End and any work orders generated were completed in the same manner in which they were completed at all other developments.

2b.) The Housing Authority will formally follow through with its plans to cancel the disposition of the South End and send a letter to the Special Application Center.

2c.) The Housing Authority will complete a Capital Needs Assessment of the South End Program within sixty (60) days.

2d.) The Housing Authority has already programmed money from the 2003 Capital Fund Program to begin work at the South End. Additional money can be reprogrammed from other Capital Fund items if necessary to make repairs at the South End. It is the Housing Authority's intent to have the South End fully occupied by December 31, 2005.

2e.) The Housing Authority Board will provide an adequate explanation for the reason for going into executive session.

Capital Fund Program

3a.) We will request HUD not to freeze the CFP funding as this will hinder the Housing Authority's ability to meet obligation and expenditure thresholds. The Housing Authority will only expend funds on eligible work items. All LOCCS requisitions can be approved by HUD before they are processed.

3b.) The Housing Authority has no funding available in its low income operating budgets for 2000, 2001 and 2002.

3c.) As stated above there are no funds available.

3d.) The Authority has prepared a reconciliation of its Capital Fund activity. This reconciliation is attached as Exhibit B.

3e.) The $92,518.00 is an ineligible cost. This money was drawn down twice, however the contractor was paid the correct amount of money. A breakdown of the payments to Gibraltar are attached Exhibit C.

3f.) The Housing Authority believes the items in question are expenses paid for the Housing Authority Police, Berkeley Heights Tenant Council and Vacancy Reductions/unit rehabilitation.

With regards to the police the Housing Authority has documentation showing that all police officers are certified. See Exhibit D. The Authority's police force works under the direction of the Chief of Police of the City of Waterbury. The Housing Authority's police force has the same power and responsibilities that City of Waterbury Police Officers have.

With regard to the Berkeley Heights Resident Council, they are a duly organized resident council. They operate under a set of bylaws and election of officers is in accordance with the bylaws. The $1,592.00 paid monthly to the Resident Council is for salaries and monthly office expenses. The Housing Authority is in the process of preparing a detail of all Resident Council expenditures.

With regards to vacancy reduction/unit rehabilitation the Authority contends that this is an eligible expense. In Handbook 7485.3G Section 2-8 page 2-10 it states that maintenance, including preventive maintenance is eligible under management improvements. In addition, in the Authority's annual submission for the Capital Fund Program, vacancy reductions appear in 2000, 2001, 2002, 2003, 2004 submissions and the current (5) five year plan. These plans were all approved by the HUD Field Office.

3g.) The Housing Authority will use funds from its Capital Fund Program line item 1408 Management Improvements to send staff working on the CFP Program to appropriate training.

3h.) The Housing Authority will begin the process of updating its Physical Needs Assessment in the next 60 days. The Housing Authority will make any necessary adjustments to its CFP Annual Statements and/or Five Year Plan.

WHA Transferred Public Housing Funds to a Multifamily Project

4a.) The Housing Authority has ceased transferring LIPH Funds to Northwood Apartments.

4b.) All accounts have been reconciled to identify all transfers to multifamily properties.

4c.) A contract has already been signed by both the buyer and seller for Northwood and Villagewood. Exhibit E.

4d.) The Housing Authority will place all sale proceeds in a restricted account.

3

4e.) The Housing Authority will reimburse LIPH for $245,000.00 and the revolving fund for $240,344.00 from the proceeds of the Northwood and Villagewood sales.

4f.) No transfers were made after May 31, 2004.

4g.) The Authority will establish a plan to use any remaining proceeds from the sale of the properties. This plan will be established upon completion of the sale of the properties.

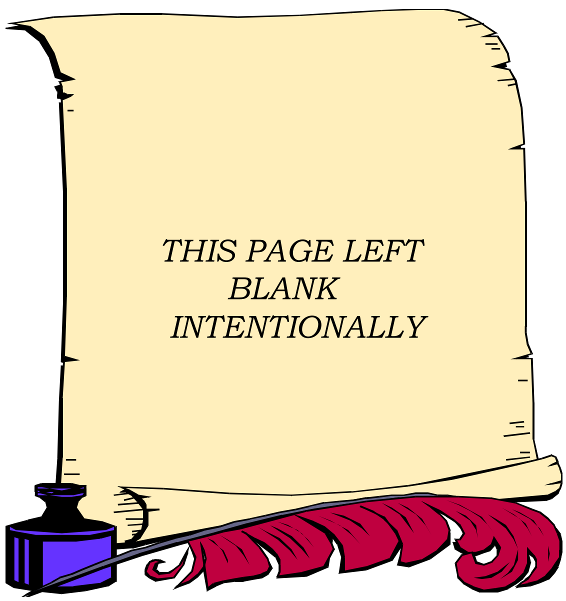
WHA did not use Replacement Housing Factor Funds

5a.) The Housing Authority is aware that it did not meet any of the deadlines for the 2000 RHF Grant. If the $22,988.00 can still be reserved for use by the Housing Authority, we request that HUD consider this.

5b.) The South End Project will be cancelled and the Waterbury Housing Authority requests that HUD consider allowing the Housing Authority's use of the $99,009.00 in RHF Funding.

5c.) As stated above the Waterbury Housing Authority requests the use of the $99,009.00.

5d.) If the Waterbury Housing Authority is eligible to use the $99,009.00 in RHF Funding, the Waterbury Housing Authority will submit a RHF Plan within 60 days.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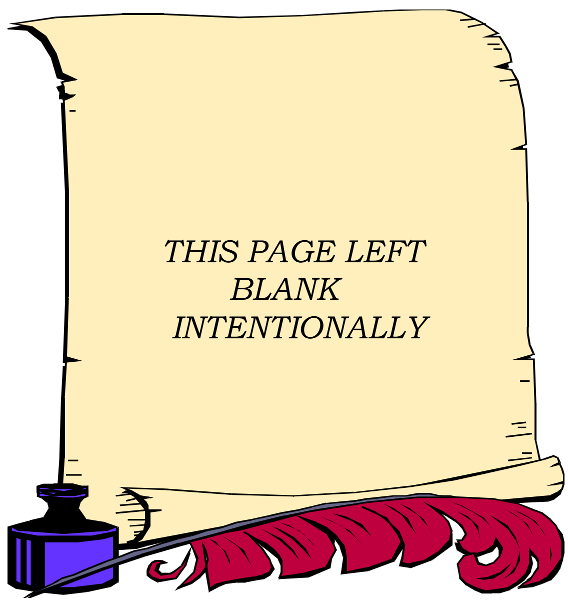
Schedule Of Section 5(h) Homeownership Program Properties

No.	Property Address	Type	Purchase Date	Amount Paid	Date Sold	Sale Price
1	118 Citizens Avenue	Single-family detached	12/02/93	$110,000	1/24/96	$85,000
2	238-240 Fanning Street	Duplex	12/02/93	130,000	10/17/97	90,000
3	5 Cassidy Avenue	Triplex	12/03/93	175,000	1/24/96	130,000
4	45 Bishop Street[4]	Single-family detached	12/17/93	79,000	NA	NA
5	55 Bishop Street	Single-family detached	12/17/93	79,000	5/18/95	70,000
6	59 Bishop Street	Single-family detached	12/17/93	79,000	5/18/95	70,000
7	162 Plank Road	Single-family detached	10/07/94	95,000	4/17/96	96,000
8	34 Terrace Avenue	Single-family detached	10/07/94	80,000	9/09/96	82,000
9	137 Townsend Avenue	Single-family detached	11/22/94	115,000	4/17/96	105,000
10	47 Bagley Terrace	Single-family detached	11/23/94	99,900	5/18/95	101,000
11	100 Morton Road	Single-family detached	11/23/94	99,900	10/06/95	101,000
12	216 Greenwood Avenue	Single-family detached	11/29/94	98,000	4/17/96	90,000
13	124 Wilson Street	Single-family detached	11/30/94	90,000	8/28/96	90,000
14	266 Woodtick Road	Single-family detached	12/01/94	90,000	8/23/96	88,000
15	81 Brookview Avenue	Single-family detached	10/24/96	72,000	NOT SOLD	
16	75 Madison Avenue	Single-family detached	10/29/96	70,000	NOT SOLD	
17	86 Hallock Street	Single-family detached	10/30/96	82,000	NOT SOLD	
18	16 Whittlesey Avenue	Single-family detached	11/05/96	70,000	NOT SOLD	
19	34 Springdale Avenue	Single-family detached	11/18/96	80,000	6/24/99	74,990
20	13 Ivy Lane	Single-family detached	3/27/97	102,000	10/09/97	102,000
21	89 Morton Road	Single-family detached	3/27/97	105,000	6/23/04	143,000
22	3 Gordon Street	Single-family detached	12/04/97	108,000	8/18/99	95,000
23	19 Ivy Lane	Single-family detached	12/04/97	102,000	8/03/99	100,000
24	47 Midvale Avenue	Single-family detached	12/04/97	109,000	5/20/99	113,000
25	37 Midvale Avenue	Single-family detached	12/04/97	109,000	8/19/98	112,400
26	118 Wilson Street	Single-family detached	5/19/98	111,000	4/13/99	109,000
27	88 Circular Avenue	Single-family detached	7/06/99	70,000	NOT SOLD	
28	174 Rodney Street	Single-family detached	7/06/99	103,500	12/05/03	120,500
29	178 Rodney Street	Single-family detached	7/06/99	115,000	12/05/03	125,000
	Totals			**$2,828,300**		**$2,292,890**

[4] 45 Bishop Street was converted to a Low-Income Public Housing Program unit and receives operating subsidy.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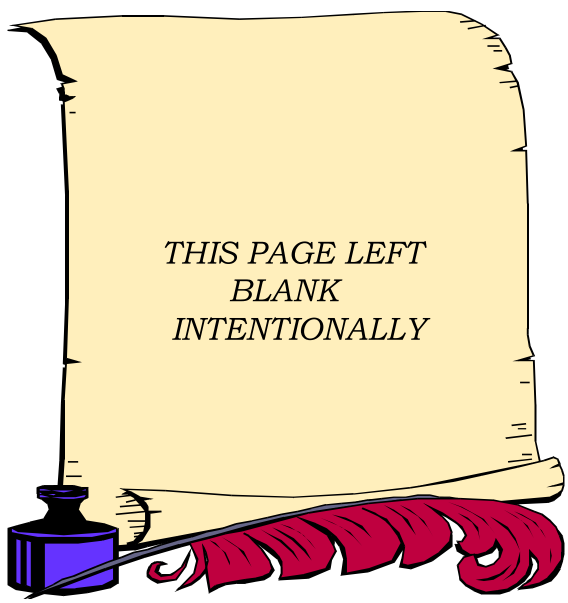
Schedule Of Ineligible And Unsupported Capital Fund Program Costs

Description	Grant Number						
	CT26P006501-00		CT26P006501-01		CT26P006501-02		
	Ineligible	Unsupported	Ineligible	Unsupported	Ineligible	Unsupported	Totals
Dwelling Structures					$92,518		$92,518
Unit Turnaround	$51,194		$176,866				$228,060
Rehab Salaries and Benefits		$77,828		$66,156			143,984
Berkeley Heights Tenant Council		11,144		6,368		$9,552	27,064
Miscellaneous		17,870		5,562			23,432
Authority Police Officers		50,000		80,000		100,000	230,000
Totals	$51,194	$156,842	$176,866	$158,086	$92,518	$109,552	$745,058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