
AUDIT REPORT



The Hartford Housing Authority Improperly Used \$3.7 Million
in Public Housing Operating Subsidies for Its State and Other
Federal Programs

2005-BO-1006

September 6, 2005

OFFICE OF AUDIT, REGION 1
Boston, MA



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TO: Donna J. Ayala, Director, Office of Public Housing, Boston, MA, Regional Office, 1APH

FROM: John A. Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: The Hartford Housing Authority Improperly Used \$3.7 Million in Public Housing Operating Subsidies for Its State and Other Federal Programs

HIGHLIGHTS

What We Audited and Why

As part of our fiscal year 2005 annual audit plan, we reviewed the low-income public housing (public housing) program at the Hartford Housing Authority (Authority). Our objective was to determine whether the Authority used low-income public housing (public housing) operating subsidies in compliance with the financial provisions of its annual contributions contract.

What We Found

The Authority did not administer its public housing operating subsidies in compliance with the financial provisions of its annual contributions contract. It used public housing operating subsidies to pay expenditures of its state-subsidized housing program and other federal housing programs. This condition occurred because the Authority failed to establish internal controls to ensure compliance with its annual contributions contracts for public housing and prevent the use of federal funds to pay nonprogram expenses. As a result, the Authority did not have \$3.7 million available to administer its public housing program.

What We Recommend

We recommend that the director of the Regional Office of Public Housing, Boston, Massachusetts, require that the Authority repay the public housing operating fund \$3.7 million plus interest. In addition, the Authority should establish and implement policies and procedures to ensure that public housing operating subsidies are used only for program purposes.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with U.S. Department of Housing and Urban Development (HUD) Handbook 2000.06, REV-3. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

The complete text of the auditee's response, along with our evaluation of that response, can be found in [appendix B](#) of this report. The Authority concurred with all of our recommendations and the proposed corrective actions, if properly implemented, should be sufficient. However, the Authority did not address our recommendation to pay interest on the funds.

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BACKGROUND AND OBJECTIVES

The Hartford Housing Authority (Authority) was created under the United States Housing Act of 1937 and section 8-40 of the Connecticut General Statutes to provide low-income public housing for qualified individuals. The Authority is headed by an executive director and governed by a board of commissioners. The Authority's long-time former executive director retired in March of 2005. The Authority hired an interim executive director and is conducting a nationwide search to fill its executive director position.

The Authority administers one of the largest low-income public housing (public housing) programs in Connecticut. It received more than \$15.7 million in public housing operating subsidies from the U.S. Department of Housing and Urban Development (HUD) to support more than 1,300 families in fiscal years 2002 through 2004.

The Authority must operate its public housing program according to the rules and regulations prescribed by HUD in accordance with the United States Housing Act of 1937, as amended, and its annual contributions contract.

HUD officials cited the Authority for using \$3.9 million in federal subsidies to subsidize its state housing program from 1991 through 1998. The Authority's financial records show that corrective action was taken to repay the funds.

Our overall objective was to determine whether the Authority used public housing operating subsidies in compliance with the financial provisions of its annual contributions contract. We focused on whether the Authority improperly used its public housing operating subsidies for other housing programs and entities.

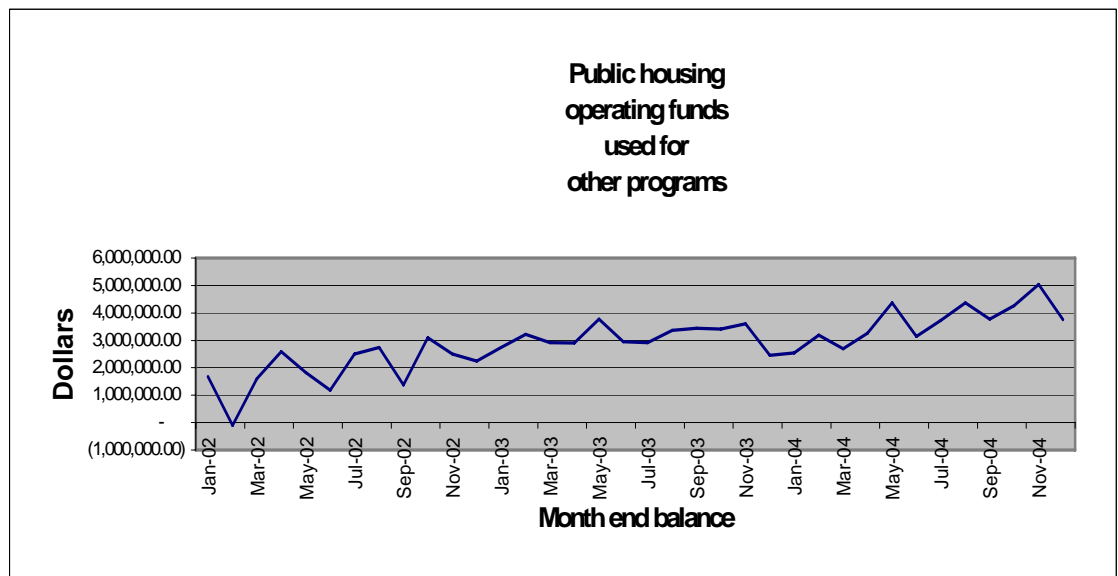
RESULTS OF AUDIT

Finding 1: The Authority Improperly Used \$3.7 Million in Public Housing Operating Subsidies for Other Programs.

The Authority improperly used its public housing operating subsidies to pay expenditures of state and other federal programs. The Authority's annual contributions contract with HUD states that public housing operating subsidies may not be used for other programs. The improper use of funds occurred due to a lack of adequate internal controls for its federal programs and the operating losses incurred by its state moderate rent program. As a result, the Authority's public housing program did not have \$3.7 million in funds available to administer the program and maintain public housing units.

Federal Funds Must Be Used for Specific Programs

The Authority used a series of fund accounts to track the source and use of funds for its federal, state, and local programs. The funds received for all programs were transferred into the Authority's revolving fund, and the Authority paid all program expenditures from this fund. According to the rules and regulations, public housing operating subsidies are not fungible, and withdrawals shall not be made for a specific program in excess of the funds available for that program. During fiscal years 2002 through 2004, the Authority withdrew excess funds and consistently used more than \$1 million in public housing operating subsidies for other programs.

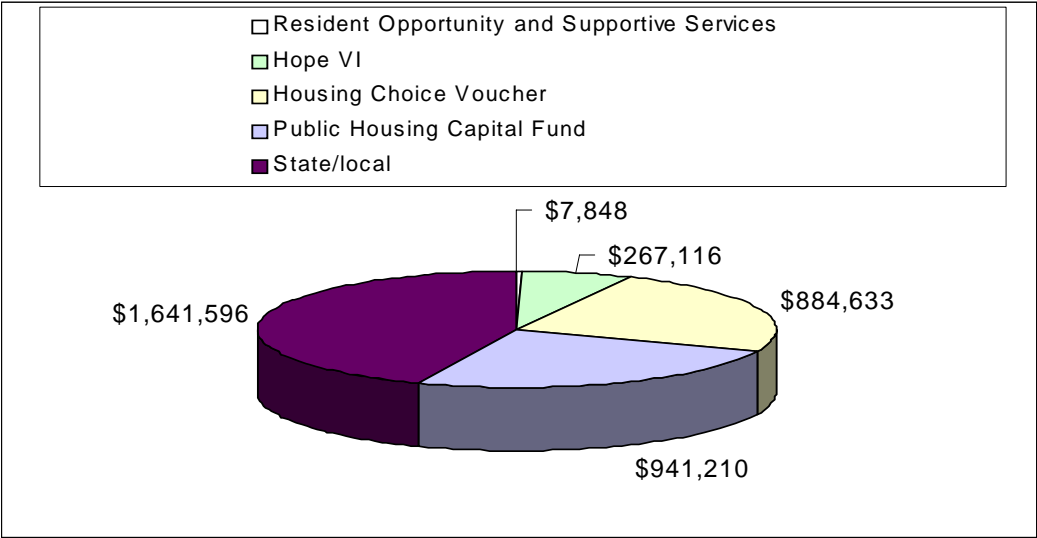


During this period, we calculated that the public housing program would have

earned \$119,132 in interest if the Authority had placed these funds in 90-day treasury bills at the reported Federal Reserve rate (see [appendix C](#)).

\$3.7 Million Was Used for Other Programs

The Authority’s financial records showed that as of December 31, 2004, the Authority had used \$3,742,403 in public housing operating subsidies for its other programs. See the chart below for details.



Inadequate Management Controls

This improper use of funds occurred due to a lack of adequate internal controls over the Authority’s source and use of funds. The Authority failed to process Public Housing Capital Fund, Hope VI, and replacement housing drawdowns from HUD in a timely manner, resulting in program funding shortages that were covered using public housing operating subsidies. The Authority also underestimated the number of Section 8 voucher units under lease in January of 2004 and did not submit an interim funding request to cover the shortage. The Authority’s year-end settlement (HUD 52681) requested the full amount of voucher program funds required and HUD paid the Authority an additional \$670,296 in April of 2005 for fiscal year 2004 expenses. In addition, the Authority’s state housing projects incurred operating losses and used surplus federal funds to cover the state programs’ expenses.

Repayment May Be Possible

The Authority acknowledged that public housing operating subsidies may not be used for other programs and has started taking action to repay the public housing program.

Conclusion

The Authority improperly used \$3,742,403 in public housing operating subsidies to pay for its state, local, and other federal programs. This occurred because of a lack of adequate internal control over the source and use of funds and failure by the Authority to obtain reimbursements from HUD in a timely manner and submit updated Section 8 funding requests. In addition, the Authority used public housing operating subsidies to cover shortages in its state and local programs. These improper uses of funds reduced the amount of funds available to support the public housing program, and the Authority must repay these funds with interest. In addition, the Authority lost the opportunity to earn interest on the funding had it invested. We estimated the public housing program might have earned \$119,132 in interest if the funds had not been used for other programs.

Recommendations

We recommend that the director of the Office of Public Housing require the Authority to

- 1A. Immediately cease the practice of using public housing operating subsidies to pay expenses for other programs.
- 1B. Repay \$1,641,596 plus interest to the public housing operating reserve from nonfederal funds.
- 1C. Repay \$941,210 to the public housing operating reserve account from the Public Housing Capital Fund Program and pay interest from nonfederal funds for the inappropriate use these funds. Funds owed from any grants which are closed must be provided from nonfederal funds
- 1D. Repay \$844,633 to the public housing operating reserve from Housing Choice Voucher funds and pay interest from nonfederal funds for the inappropriate use these funds. (\$670,296 of the \$844,633 may come from FY 2004 Housing Choice Voucher Program funds and the remaining \$214,237 must come from nonfederal funds)

- 1E. Repay \$267,116 to the public housing reserve account from Hope VI funds and pay interest from nonfederal funds for the inappropriate use these funds. Funds owed from any grants which are closed must be provided from nonfederal funds.
- 1F. Repay \$7,848 to the public housing operating reserve from Resident Opportunities and Supportive Services funds and pay interest from nonfederal funds for the inappropriate use these funds.
- 1G. Strengthen and implement controls over tracking and reporting of federal public housing operating subsidies to ensure that the Authority is using these funds for this federal program only.
- 1H. Strengthen and implement controls over cash management to ensure timely reimbursements are obtained for its federal programs.
- 1I. Submit monthly accounting reports on source and use of federal funds with adequate documentation to HUD for monitoring.

SCOPE AND METHODOLOGY

We performed our review in accordance with generally accepted government auditing standards. We conducted the audit between March and July 2005 and covered the period of January 2002 through June 2005. The majority of our fieldwork was completed at the Authority's office located at 180 Overlook Terrace in Hartford, Connecticut. Our audit covered the period of January 1, 2002, through June 30, 2005. To accomplish our audit objectives, we

- Reviewed program requirements including federal laws and regulations, Office of Management and Budget circulars, and the consolidated annual contributions contract between the Authority and HUD.
- Reviewed the Authority's financial statements and independent public accountant's reports.
- Interviewed Authority and HUD personnel and officials and reviewed meeting minutes from the Authority's board.
- Analyzed the Authority's records for fiscal years 2002, 2003, 2004, and 2005.
- Summarized results of our analyses.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Compliance with laws and regulations – Policies of management to reasonably ensure that resource use is consistent with laws and regulations.

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

Significant Weaknesses

Based on our review, we believe the following items to be significant weaknesses:

- The Authority did not ensure public housing operating subsidies were only used for this federal program in compliance with laws and regulations. (see [finding 1](#)).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1B	\$1,825,565			
1C	\$941,210			
1D	\$844,633			
1E	\$267,116			
1F	\$23,251			

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 policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a 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/ Unreasonable/unnecessary 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 to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

THE HOUSING AUTHORITY OF THE CITY OF HARTFORD 180 OVERLOOK TERRACE, HARTFORD, CT 06106 (860) 723-8400

August 30, 2005



Mr. John Dvorak, Regional Inspector General for Audit, Region I
U.S. Department of Housing and Urban Development
Office of the Inspector General for Audit, Region I
10 Causeway Street Room 370
Boston, MA. 02222-1092

Re: Audit I – Low Income Public Housing Funds may have been used improperly.

Dear Mr. Dvorak:

In your letter dated August 16, 2005, you provided the Hartford Housing Authority (the "Authority") with your conclusion that the Authority's Low Income Public Housing Program (LIPH) funds were improperly loaned or used for other federal and state programs, and your recommendations for remedying the situation.

Audit I – Low Income Public Housing Funds may have been used improperly.

HUD Inspector General Conclusion: The Authority improperly used \$3,742,403 in public housing operating subsidies to pay for its state, local, and other federal programs. This occurred because of a lack of adequate internal control over the source and use of funds and failure by the Authority to obtain reimbursements from HUD in a timely manner and submit updated Section 8 funding requests. In addition, the Authority used public housing operating subsidies to cover shortages in its state and local programs. These improper uses of funds reduced the amount of funds available to support the public housing program, and the Authority must repay these funds with interest. In addition, the Authority lost the opportunity to earn interest on the funding had it invested. We estimated the public housing program might have earned \$119,132 in interest if the funds had not been used for other programs.

The following represent our responses to your recommendations:

HUD Inspector General Recommendations:

- 1A. **Recommendation:** Immediately cease the practice of using public housing operating subsidies to pay expenses for other programs.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Authority's Response: The Authority concurs with the HUD Office of Inspector General's recommendation and is currently working to implement internal control measures to ensure that public housing operating subsidies are not used to pay expenses of other programs.

- 1B. **Recommendation:** Repay \$1,641,596 plus interest to the public housing operating reserve from nonfederal funds.

Authority's Response: We are submitting a proposal for funding through the Connecticut Housing Finance Authority ("CHFA") with the Department of Economic and Community Development ("DECD") to obtain financing for the repayment of the \$1,641,596 that the state moderate rental program currently owes the public housing operating reserve account. In the meantime, we will control expenses to ensure they do not exceed the rents generated by that program.

- 1C. **Recommendation:** Repay \$941,210 to the public housing operating reserve account from the Public Housing Capital Fund Program and pay interest from nonfederal funds for the inappropriate use of these funds. Funds owed from any grants which are closed must be provided from nonfederal funds.

Authority's Response: The Authority has requisitioned all funds from the Capital Fund Program to repay the operating reserve account. We are awaiting receipt of these funds from HUD.

- 1D. **Recommendation:** Repay \$844,633 to the public housing operating reserve from Housing Choice Voucher funds and pay interest from nonfederal funds for the inappropriate use of these funds. (\$670,296 of the \$844,633 may come from FY 2004v Housing Choice Voucher Program funds and the remaining \$214,237 must come from nonfederal funds.)

Authority's Response: \$670,296 was repaid to the operating reserve on May 5, 2005. We are currently evaluating how the remaining \$214,237 will be paid.

- 1E. **Recommendation:** Repay \$267,116 to the public housing reserve account from Hope VI funds and pay interest from nonfederal funds for the inappropriate use of these funds. Funds owed from any grants which are closed must be provided from nonfederal funds.

Authority's Response: The Authority has requisitioned all funds due from the Hope VI program and anticipates receipt of these funds by September 2, 2005.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

- 1F. **Recommendation:** Repay \$7,848 to the public housing operating reserve from Resident Opportunities and Supportive Services funds and pay interest from nonfederal funds for the inappropriate use of these funds.

Authority's Response: The Authority is in the process of reconciling the general ledger to the LOCCS for the drawdown funds and will requisition monies if necessary.

- 1G. **Recommendation:** Strengthen and implement controls over tracking and reporting of federal public housing operating subsidies to ensure that the Authority is using these funds for this federal program only.

Authority's Response: The Authority will ensure that federal public housing operating subsidies are used only for the low income public housing program. This will be accomplished by reimbursing the central checking account from the public housing operating reserve account for public housing expenses only.

- 1H. **Recommendation:** Strengthen and implement controls over cash management to ensure timely reimbursements are obtained for its federal programs.

Authority's Response: The Authority is currently working to develop a stringent Cash Management Policy that will ensure that all reimbursements are made on a timely basis.


- 1I. **Recommendation:** Submit monthly accounting reports on source and use of federal funds with adequate documentation to HUD for monitoring.

Authority's Response: The Authority will work with the local HUD field office to develop a system for providing monthly accounting reports on sources and uses of federal funds for their monitoring.

We appreciate this opportunity to respond to your letter dated August 16, 2005 and assure you that the recommended corrective measures outlined in this letter will be aggressively pursued. If you have any questions regarding the responses, please do not hesitate to contact us at (860) 723-8420.

Sincerely,


Lancelot A. Gordon
Interim Executive Director


Courtney Anderson
Chairman

LAG/CA/lp

CC: Board of Commissioners

OIG Evaluation of Auditee Comments

Comment 1

The Authority concurred with all of our recommendations and the proposed corrective actions, if properly implemented, should be sufficient to address the deficiencies identified in the report. However, the Authority did not address our recommendation to pay interest on its improper use of the federal funds. HUD needs to ensure that the Authority addresses payment of interest for its improper use of the funds.

Appendix C

SCHEDULE OF INTEREST LOST

Date ¹	Public housing operating fund 10 acct # 115500 "due from other programs"	91-day treasury bill rates	OIG imputed interest (annual yield / 100 / 12 * due from)
1/31/2002	1,679,850.61	1.769	\$ 2,476.38
2/28/2002	-101,444.82	1.769	(149.55)
3/31/2002	1,604,103.84	1.821	2,434.23
4/30/2002	2,583,748.59	1.76	3,789.50
5/31/2002	1,827,675.08	1.76	2,680.59
6/30/2002	1,179,718.63	1.719	1,689.95
7/31/2002	2,502,142.32	1.712	3,569.72
8/31/2002	2,740,392.40	1.661	3,793.16
9/30/2002	1,382,673.97	1.566	1,804.39
10/31/2002	3,101,420.63	1.578	4,078.37
11/30/2002	2,505,112.77	1.228	2,563.57
12/31/2002	2,240,455.30	1.207	2,253.52
1/31/2003	2,740,288.20	1.159	2,646.66
2/28/2003	3,212,021.97	1.195	3,198.64
3/31/2003	2,923,449.97	1.121	2,730.99
4/30/2003	2,899,476.12	1.141	2,756.92
5/31/2003	3,764,253.18	1.121	3,516.44
6/30/2003	2,945,377.64	0.903	2,216.40
7/31/2003	2,911,542.73	0.964	2,338.94
8/31/2003	3,365,068.47	0.997	2,795.81
9/30/2003	3,449,206.68	0.953	2,739.24
10/31/2003	3,411,531.97	0.96	2,729.23
11/30/2003	3,607,903.39	0.946	2,844.23
12/31/2003	2,450,048.72	0.901	1,839.58
1/31/2004	2,540,516.34	0.907	1,920.21
2/29/2004	3,190,444.67	0.947	2,517.79
3/31/2004	2,691,495.71	0.961	2,155.44
4/30/2004	3,267,739.60	0.985	2,682.27
5/31/2004	4,363,005.23	1.066	3,875.80
6/30/2004	3,143,137.58	1.381	3,617.23
7/31/2004	3,726,106.99	1.449	4,499.27
8/31/2004	4,371,106.57	1.607	5,853.64
9/30/2004	3,764,306.32	1.741	5,461.38
10/31/2004	4,260,578.76	1.89	6,710.41
11/30/2004	5,042,864.52	2.238	9,404.94
12/31/2004	3,753,473.42	2.269	7,097.19
			\$ 119,132.48

¹ Month/day/year