
AUDIT REPORT



HOUSING AUTHORITY OF THE
CITY OF NEW BRITAIN

NEW BRITAIN, CONNECTICUT

00-BO-202-1003

JUNE 12, 2000

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	June 12, 2000
Audit Case Number	00-BO-202-1003

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

William D. Hartnett

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

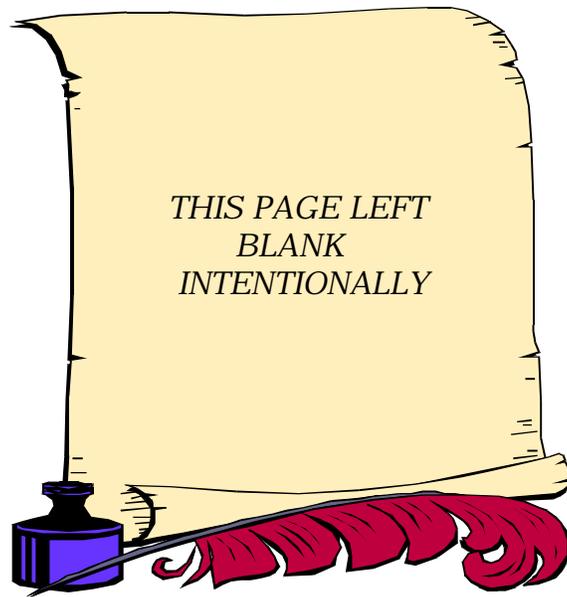
SUBJECT: Housing Authority of the City of New Britain
New Britain, Connecticut

We performed a review of the Low-Income Public Housing and Section 8 Programs of the Housing Authority of the City of New Britain, Connecticut (PHA). The objective of our review was to determine if the PHA is operating its programs in an efficient and effective manner.

The report contains two findings. We found that the PHA incurred substantial unnecessary legal expenses, and they need to improve certain aspects of its administration and management operations.

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

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



Executive Summary

We performed an audit of the Low-Income Public Housing (LIPH) and Section 8 Programs of the Housing Authority of the City of New Britain, Connecticut (PHA). The purpose of our review was to determine if the PHA is administering its programs efficiently and effectively. The specific objectives were to determine whether the PHA is:

- Using its resources and managing its programs and operations efficiently, effectively, and economically;
- Maintaining its public housing units in a safe, decent, and sanitary manner; and
- Complying with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

Audit Results

A review of the PHA's LIPH and Section 8 Programs indicated that the PHA charged excessive legal expenses to its Federal programs. Further, the PHA needs to improve its administration of the LIPH and Section 8 programs by strengthening the procedures used in its: 1) inspection process; 2) determinations of contract rent reasonableness; and 3) reporting of Comprehensive Grant Program (CGP) expenditures.

Since January 1995, the PHA has incurred approximately \$1.5 million dollars in legal expenses and related costs. In one instance alone, the PHA expended \$242,275 for legal expenses incurred in its defense against a lawsuit filed by a former Executive Director only to eventually settle the lawsuit for \$150,000. The PHA did not execute a Litigation Services Contract and did not aggressively seek reimbursement for legal expenses from its liability insurance carriers. As a result, the PHA incurred substantial legal expenses unnecessarily that may have otherwise been avoided.

During inspections of the PHA's LIPH and Section 8 units, recurring smoke detector violations were noted. In some instances, as much as 62 percent of a development's units inspected had smoke detector violations, ranging from detectors missing batteries to detectors that were completely missing. To ensure the safety of all of its tenants, the PHA needs to improve its efforts to reduce the number of smoke detector violations and hold those tenants accountable who violate the smoke detector provisions in their lease.

Furthermore, the PHA did not demonstrate that its procedures for determining contract rent reasonableness were adequate. The PHA has not performed a current market survey of private unassisted rental units in the area to assure that assisted contract rents are comparable. Lastly, the PHA reported CGP expenditures to HUD which were not reflective of the PHA's financial records. The PHA's Individual Public Accountant (IPA) also noted discrepancies between the CGP funds advanced to the PHA and the CGP funds expended by the PHA, as noted in the Audited Financial Statements for the fiscal year ending December 31, 1998.

Recommendations

We are recommending that the PHA: 1) be advised in writing of the Federal Regulations regarding litigation, or potential litigation matters, and 2) seek reimbursement for legal expenses from its liability insurance carriers and provide status reports indicating their progress. The PHA should also adhere to its new procedures regarding smoke detector violations; document that it has completed a market survey of private unassisted units in the area, including those owned by Section 8 owners; and provide a detailed schedule of drawdowns and expenditures for closed grants under its Comprehensive Grant Program.

Findings and
Recommendations
Discussed

The findings were discussed with the PHA during the course of the audit. On March 14, 2000, we provided the PHA a copy of the draft audit report for comment. We received the PHA's response on April 28, 2000. In general, the PHA agreed with the facts in the report but stated its overall administration and management has improved since the current management team took over in 1997.

We have included pertinent comments of the PHA's response in the Findings section of the report. Due to its voluminous content, the PHA's entire response was forwarded to the program staff under a separate letter. Pertinent excerpts are included in Appendix A.

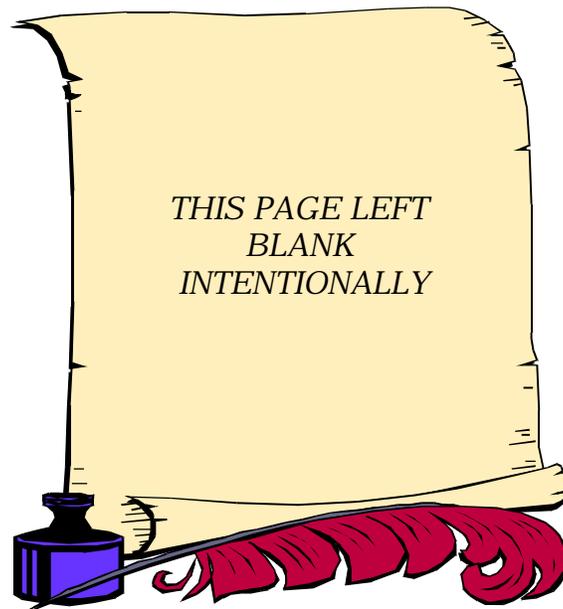


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Abbreviations

ACC	Annual Contributions Contract
AMCC	Actual Modernization Cost Certificate
CFR	Code of Federal Regulations
GGP	Comprehensive Grant Program
CIAP	Comprehensive Improvement Assistance Program
FY	Fiscal Year
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
LIPH	Low-Income Public Housing
OC	Office of Counsel
PHA	Housing Authority of the City of New Britain
REAC	Real Estate Assessment Center
RFP	Request for Proposal

Introduction

The Housing Authority of the City of New Britain, Connecticut (PHA) was created pursuant to Section 8-40 of the Connecticut General Statutes. The PHA's offices are located at 34 Marimac Road, New Britain, Connecticut 06053. The PHA provides low rent housing for qualified individuals in accordance with rules and regulations prescribed by the Department of Housing and Urban Development in accordance with the United States Housing Act of 1937, as amended. The PHA is governed by a Board of Commissioners appointed by the Mayor, and is chaired by Donald DeFronzo. The Executive Director, Paul Vayer, is responsible for the administration of PHA operations.

The PHA operates both federally assisted and non federally assisted housing programs through the same Board of Commissioners and staff. As of September 30, 1999, the PHA was administering 1381 Federal units; 756 low-income housing units and 625 Section 8 units. The PHA was also administering 966 State units; 122 elderly units and 844 moderate rental units.

Audit Objectives

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

- Using its resources and managing its programs and operations efficiently, effectively, and economically;
- Maintaining its public housing units in a safe, decent, and sanitary manner in compliance with HUD's Housing Quality Standards (HQS); and
- Complying with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

Audit Scope and Methodology

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

We reviewed Independent Public Accountant (IPA) reports for FYs 1996, 1997 and 1998 and PHA financial records for FYs 1995, 1996, 1997, 1998 and the period January 1, 1999 through September 30, 1999.

We interviewed the PHA's Executive Director and applicable staff, and staff from the Connecticut State Office, Office of Public Housing. We also interviewed representatives from the PHA's Certified Public Accounting Firm.

We conducted physical inspections of 14 units, consisting of nine Low-Income Public Housing units and five Section 8 units.

We reviewed the PHA's Rent Reasonableness testing procedures to determine if rents were reasonable and in accordance with regulations.

We reviewed the PHA's Section 8 and Low-Income Public Housing Administrative Plans and low-income tenant leases to ensure compliance with the "One-Strike and You're Out Provisions" of the Housing Opportunity Program Extension Act of 1996.

We examined Comprehensive Grant Program final reports submitted by the PHA to determine if reported expenditures agreed with PHA financial records.

The audit was conducted between March 1999 and December 1999, and covered the period January 1, 1996 through September 30, 1999. Where appropriate, the audit was extended to include other periods.

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

PHA Incurred Substantial Legal Expenses Unnecessarily

The Housing Authority of the City of New Britain, Connecticut (PHA) failed to follow HUD regulations and its own procurement policies, relating to litigation services, which led to the PHA incurring substantial legal expenses. Specifically, the PHA did not:

- Execute a litigation service contract in a timely manner even after repeated requests to do so by the HUD Office of Counsel (OC);
- Aggressively pursue its Liability Insurance carriers for reimbursement of legal expenses incurred (\$242,475) despite OC and the State of Connecticut requests to do so; and
- Properly pursue the State of Connecticut to fund its prorated share of legal expenses paid with Federal funds (\$38,000) by the PHA.

As a result, the PHA has incurred substantial legal expenses unnecessarily that may have otherwise been avoided, and which have contributed to the drain of the PHA's financial resources. The PHA has mismanaged scarce financial resources intended for the benefit of the low and moderate income tenants residing at the PHA.

Litigation Services Contract Required

HUD Handbook 1530.1 REV-4 (Litigation), Section 3-3 (b)(3) states:

“PHAs must obtain the concurrence of Regional Counsel in litigation services contracts with private attorneys where the fee is expected to exceed \$10,000.”

“...Contracts calling for payments on a per hour or per diem basis, or a combination of both, are required to contain at least an estimated maximum total for budget purposes.”

Additionally, the PHA's own procurement policy, as amended by PHA Board of Commissioners Resolution # 873 dated December 11, 1991, in Section III (J)(B) states:

“The Authority shall not, without the prior written approval of HUD or the Department of Housing, enter into, execute or approve any agreement or contract for professional, technical or other kinds

of services (attorneys, including ADP software and related services) under the following circumstances:

“The Procurement is expected to exceed \$10,000 and is to be awarded without competition or only one bid or offer is received in response to Solicitation or Request for Proposal, or...”

“Where the agreement or contract is for legal or other services in connection with litigation.”

24 C.F.R. Part 902 (Public Housing Assessment System (PHAS) Amendments; Final Rule), Section 902.79 (a)(1) also states:

“HUD may determine that events have occurred or that conditions exist that constitute a substantial default if a PHA is determined to be in violation of Federal statutes, including but not limited to, the Act, or in violation of regulations implementing such statutory requirements”

Universe of Legal Expenses

For the period January 1, 1995 through September 30, 1999, the PHA incurred \$1,436,535 (\$25,202/month) in legal expenses and related costs, as reported on the financial data provided by the PHA. Of those costs, we noted problems with the two law firms receiving the highest amount of funds from the PHA. Those two entities represent 54.4 percent of the PHA’s total legal costs:

Law Firm	Total	% of Total Costs
R & C (1)	\$353,933	28.4%
A & A (2)	\$325,005	26.0%
Total Costs	\$678,938	54.4%

1. Robinson & Cole; represented PHA in lawsuit brought by former PHA Executive Director Croslan.
2. Arnold & Associates; PHA’s General Counsel since FY 1995.

Litigation Services
Contract Not Executed

In response to a lawsuit filed by its then Executive Director (Patricia Croslan) in November 1994, the PHA retained the law firm of Robinson & Cole as legal counsel. The law firm of Robinson & Cole was representing the PHA without a contract, at an hourly rate, in a lawsuit against the PHA filed in 1990 (Cobb vs. PHA). The PHA decided to continue its use of Robinson & Cole. However the PHA failed to execute a litigation services contract with the law firm contrary to HUD regulations.

PHA Was Aware of HUD
Regulations

On December 22, 1994, the HUD Office of Counsel (OC) acknowledged receipt of the PHA's letter of December 16, 1994, which advised of the initiated litigation by Executive Director Croslan. The OC letter advised that based on the information provided it appeared that, for the present, the PHA's insurance carrier would provide the necessary legal counsel. Consequently, the OC advised that they did not anticipate that the PHA would have to expend substantial federal funds in its defense. Nonetheless, the OC's letter outlined the necessary steps to take if the situation were to change and the PHA required outside legal counsel. Among the items outlined were: 1) the need to enter into an Agreement for Litigation Services when retaining outside legal representation; 2) the need to comply with HUD regulations at 24 C.F.R. 85.36 in its selection process of outside counsel, which calls for a competitive bid process; and 3) the need to obtain OC approval for contracts exceeding \$25,000.

\$142,475 Extended
Without Litigation Service
Contract

During the period of March 31, 1995 through March 15, 1996, the PHA paid \$142,475 to Robinson & Cole for legal expenses incurred without ever executing a Litigation Services Contract. This disregard for Federal requirements represents a violation of Federal statute, which in accordance with the PHAS Amendments Final Rule constitutes a "*substantial default.*" During that same time period, the PHA received \$17,145 in insurance reimbursements from one of its liability carriers, Scottsdale Insurance Company.

It was not until May 1997, two and a half years after Robinson & Cole began defending the PHA, that the PHA, after OC involvement, finally executed a Litigation Services Contract in the amount of \$100,000. The \$100,000 was to

cover \$75,380 in outstanding invoices dating back to March 1996 and up to an additional \$24,620 of expenses. On September 19, 1997, the OC approved the Litigation Services Contract and the use of \$100,000 of Section 8 Administrative Funds to cover the contract with the expectation that the PHA would pursue the State of Connecticut to fund its prorated share of any expenses advanced from the Section 8 Administrative Fund. The OC was not aware that the PHA had already incurred and paid \$142,475 prior to the execution of the \$100,000 contract.

In December 1997, the PHA settled the case with Executive Director Crosland for \$150,000. This is after the PHA incurred and paid \$242,475 in legal expenses during the approximate three year period of the lawsuit. Had the PHA followed HUD regulations, the excessive legal fees incurred and paid may have been greatly reduced or possibly avoided all together. Instead, the PHA paid approximately \$400,000 in the defense and settlement of one case.

PHA Directed to Pursue
Liability Insurance

In September 1996, the OC directed the PHA, through counsel, to immediately make demand for reimbursement of its legal bills through its liability insurance carrier(s). On September 5, 1997, the OC again requested that the PHA pursue its liability insurance carriers to cover the PHA's legal expenses. Additionally, on January 12, 1998 the State of Connecticut, Department of Economic and Community Development advised the PHA that the State of Connecticut would not consider authorizing project money until information on the liability insurance carriers response was received. The PHA did not provide any response.

Liability Insurance
Carriers Contacted

On April 22, 1997, over two years after Robinson & Cole began representing the PHA in the Crosland lawsuit, Robinson & Cole sent letters out to the PHA's liability insurance carriers who may have provided insurance policies to the PHA. The letters provided the liability insurance companies written notice of any claims that may have been covered under the policies. However, there is little other correspondence or evidence that the liability insurance carriers responded or were further pursued.

In accordance with the Litigation Services Contract executed in May 1997 between the PHA and Robinson & Cole, it was agreed that Robinson & Cole would pursue the

liability insurance carriers. The Litigation Services Contract stated that Robinson & Cole would commence any action or actions against Colonia Insurance Company and/or United Coastal Insurance Company for payment of any settlement with or judgment in favor of Patricia Croslan; plus all attorneys fees incurred in the defense of same; plus all attorneys fees incurred in prosecuting such claims against Colonia Insurance Company and/or United Coastal Insurance Company; plus any additional compensatory and/or punitive damages available by law.

Complaint Issued

In October 1999, Robinson & Cole contacted one of the liability insurance companies, Colonia Insurance Company. Robinson & Cole advised that there was a possibility that Colonia Insurance Company may provide some up front money as a partial settlement of any claim, but that the PHA's other liability insurance carrier, United Coastal Insurance, would be pursued first. On October 18, 1999, Robinson & Cole issued a complaint against United Coastal Insurance in the Superior Court of New Britain, Connecticut. This is approximately five years after Robinson & Cole began representing the PHA in the Croslan lawsuit. Meanwhile, Federal funds were utilized to pay the substantial legal costs of the PHA.

PHA Fails to Actively Pursue State of Connecticut

On September 19, 1997, the OC approved a Litigation Services Contract and the use of \$100,000 of Section 8 Administrative Funds to cover the contract with the expectation that the PHA would pursue the State of Connecticut to fund its prorated share of any expenses advanced from the Section 8 Administrative Fund. The State of Connecticut's prorated share of the \$100,000 would have been 38 percent (\$38,000) based on the total number of Federal and State units operated by the PHA during FY 1997 (Federal - 1598 units, State - 967 units). On September 2, 1999, the OC advised the PHA that, to date they had not heard from the PHA about its efforts to seek reimbursement from the State of Connecticut.

On October 5, 1999, the PHA advised the OC that the State of Connecticut, Department of Economic and Community Development has not authorized payment for litigation and settlement costs regarding the Croslan case. Therefore, the PHA has not reimbursed the Section 8 Administrative Program. Simply stated, since September 1997 the PHA

has done nothing to pursue the State of Connecticut to fund its prorated share of legal expenses paid with Federal Section 8 Administrative Program funds. Furthermore, although the PHA identified expenses charged to its State programs, no evidence was provided indicating that the State actually paid for those expenses.

Financial and Staff
Resources Drained

Given the substantial outlay of funds for legal expenses over the last five years, the PHA has mismanaged scarce financial resources intended for the benefit of the low and moderate tenants residing at the PHA. The lawsuits and claims brought against the PHA have also put a strain on the staff resources of the PHA due to the added responsibility of handling the complaints. The PHA staff is forced to spend time receiving, reviewing, monitoring, and following up on those lawsuits and complaints brought against the PHA, which takes away from the amount of time needed to meet the daily needs of the PHA.

Federal Funds Needlessly
Wasted

The role of Public Housing Authorities, in part, is to provide decent, safe, and sanitary housing to low and moderate income individuals and families. Although circumstances involving litigation cannot be entirely avoided, they can be minimized. The PHA, since FY 1995, has expended nearly \$1.5 million dollars on legal expenses and related costs or approximately \$300,000 per year. There is clearly a failure on the part of the PHA to properly manage their litigation expenses and the responsibility of those enormous expenses lies with the PHA. Rather than aggressively pursuing indemnification under its insurance contracts, the PHA used Federal program funds to pay litigation expenses. The PHA has ignored its own procurement provisions and HUD regulations, which are in place to protect both the PHA and the scarce Federal resources available for those low and moderate income individuals and families residing in public housing. By showing a disregard for HUD regulations, the PHA has shown a disregard toward the needs of its tenants. To continue to do so would go against the very nature of the role of Public Housing Authorities in American communities.

Auditee Comments

The PHA did not dispute the facts in the draft audit report, but stated the errors cited were the responsibility of a previous administration involving different Commissioners and Executive Directors. The PHA made reference to the audit period covering January 1, 1995 through September 30, 1999 and believes that the substantial changes made since 1997 should be considered in an analysis of the PHA's Administration.

The PHA states that during the course of the audit, the PHA made a continued and proactive effort to specifically identify administrative changes clearly intended to limit the overall administrative problem areas that existed prior to 1997. The PHA provided a partial listing of such changes along with its responses and stated that there appears to be no evidence that these crucial factors were considered to any meaningful extent.

The PHA stated that under the current administration, including the Chairman, Commissioners, Executive Director and the staff, the actions of the Authority will conform to Federal and State regulations. The PHA advised that it's in the process of attempting to finalize suits against two insurance companies with regard to the legal fees incurred and provided copies of the faxes received from its Attorney as evidence of such.

**OIG Evaluation of
Auditee Comments**

We recognized that there was a change in leadership at the PHA during the audit period. While the PHA has made administrative changes, it is imperative that the PHA follow the Federal regulations with regard to litigation or potential litigation matters. The current Administration did little, if any, to recoup legal fees incurred as a result of litigation with a former Executive Director, which was resolved in December 1997. It was not until our review that the PHA made any effort to recoup the litigation legal fees incurred from its insurance carriers and the State of Connecticut.

The PHA's response did not address the specifics of the finding other than advising that they do not dispute the facts. The PHA also provided the current status of their efforts to recover litigation legal fees from its insurance carriers.

Recommendations

We recommend that you:

- 1A. Advise the PHA's Board of Commissioners and Executive Director in writing of the Federal requirements regarding litigation, or potential litigation matters, and that failure to adhere to those regulations may result in action to impose appropriate administrative sanctions against the PHA's Commissioners or Officers deemed responsible for any violations.
- 1B. Instruct the PHA to provide a comprehensive schedule of outstanding legal matters, their status and expected outcome, including copies of all executed contracts related to such.
- 1C. Require the PHA to timely follow-up on the status of their claims against their liability insurance carriers until such time as the funds are recovered or the claims are otherwise resolved.
- 1D. Require the PHA to provide that the applicable Federal and/or State programs were reimbursed should any funds be recovered from the liability insurance carriers.
- 1E. Advise the PHA to seek reimbursement from the State of Connecticut for its prorated share of legal expenses paid with Federal funds and reimburse the Section 8 Administration Program with any funds obtained.

PHA Administration Needs Improvement

The Housing Authority of the City of New Britain (PHA) needs to improve the overall administration of its operations. We found:

- Repeated smoke detector violations resulting from Housing Quality Standards (HQS) inspections;
- Rent reasonableness not assured;
- Occupancy provisions of the Housing Opportunity Program Extension Act of 1996 not followed; and
- Comprehensive Grant Program (CGP) expenditures reported inaccurately.

The PHA needs to re-evaluate its administrative procedures to ensure its future operations are managed efficiently and effectively.

Inspections

HQS Required

Federal regulations require that HQS must be met both at initial occupancy and during the term of the assisted lease (24 CFR 982.401). Federal regulations also require that the PHA inspect Section 8 units at least annually, and at other times as needed, to determine if the unit meets HQS, and must conduct supervisory quality control HQS inspections (24 CFR 982.405).

Smoke Detector Requirements

Federal regulations require that each dwelling unit must include at least one battery-operated or hard-wired smoke detector, in proper working condition, on each level of the unit (24 CFR 902.23(a)(4)(iv)).

Additionally, the Housing Code of the City of New Britain, Connecticut, in Article II, Section 13-104(e) states:

“A smoke detector, even though installed in accordance with this section, if allowed to be connected to a switch-off circuit or if inoperable because of battery deterioration, shall be considered to be in non-compliance with this section (Code 1970, 13-4.09; Ord. Of 4-82).”

Repeated Smoke Detector
Violations

A February 1999 Real Estate Assessment Center (REAC) inspection of 22 units in seven different developments identified 12 units with smoke detector violations (55 percent). The violations ranged from inoperable detectors, to detectors that were completely missing. The PHA's outside inspection contractor, Pat Kelson Associates, Inc., during a June 1999 inspection of 63 units at the Oval Grove Development identified 39 units with smoke detector violations (62 percent). Furthermore, an October 1999 inspection of 129 units at the Mount Pleasant Development by Pat Kelson Associates, Inc. identified 39 units with smoke detector violations (30 percent). Again, the violations ranged from inoperable detectors, to detectors that were completely missing.

The PHA requires each of its tenants to sign a "Smoke Detector Agreement" in which the resident agrees that they will not disengage or take down the smoke detectors. However, the Agreement does not cite any penalty for failing to adhere to its provisions, nor does the PHA hold its tenants accountable for violations. As a result, there is no deterrent in place to preclude tenants from violating the smoke detector provisions resulting in unnecessary dangerous conditions. The PHA acknowledges the potential danger, but lays the blame with the tenants who continually disconnect or remove their smoke detectors. Without adequate administrative controls or actions to minimize the potential life threatening risks, the PHA will continue to be plagued by smoke detector violations and face the very real possibility of loss of life. Through stricter enforcement and penalty, the PHA can greatly reduce the violations and therefore, the threat to its tenants.

Rent Reasonableness

Knowledge of Current
Rental Market Required
and Must be Documented

Federal regulations state that PHAs must document for each unit which it approves a lease, that the contract rent for such a unit is reasonable in relation to rents *currently* being charged for comparable unassisted units and not in excess of rent *currently* being charged by the Owner for comparable unassisted units. The PHA must take into account the location, type, quality, amenities, housing services, maintenance, and utilities to be provided by the owner of the unit (24CFR 982.503(B)(1)+2).

No Market Survey or
Other Documentation

The PHA's Director of Admissions advised that the PHA has not conducted a market survey and does not maintain one. The Director of Admissions advised that knowledge of the rental market is demonstrated by documents that are in each tenant file which exhibits market and current data. A review of 12 tenant files, for assisted units, disclosed that the files contained a "Certificate of Rent Reasonableness", which disclosed the contract rent of the unit, the name, location and rent of a comparable unit, and a space to indicate whether the contract rent is higher than rents the landlord/owner currently charges for comparable unassisted units. The tenant files did not contain any documentation to support the "Certificate of Rent Reasonableness".

Unassisted Unit Rents Not
Verified

For the 12 tenant files reviewed, the PHA did not verify the current rents charged for assisted units were reasonable in comparison to rents being charged by the landlord/owner for comparable unassisted units. The comparable units and rents disclosed on the "Certificate of Rent Reasonableness" were for other assisted units, as opposed to unassisted units. Therefore, the PHA had no assurance that the assisted rents being charged were comparable to the rents charged for unassisted rents.

The PHA's Director of Admissions advised that the tenant files contained newspaper articles detailing information for unassisted units, which were used by the PHA to determine contract rent reasonableness. The "Certificate of Rent Reasonableness", for the last two years, had no newspaper articles or other documentation attached for all 12 tenant files reviewed. Upon being informed of the missing articles, the PHA's Director of

Admissions acknowledged that the articles were not present and subsequently advised that all 12 tenant files had been amended to include recent newspaper articles. Those articles, however, did not disclose the date of the article, the location of the unit, whether the unit was assisted or unassisted, or what facilities and amenities the unit offered. Again, the PHA has not demonstrated that the rents being charged for assisted units are comparable to the rents being charged for comparable unassisted units.

Housing Opportunity Program Extension Act of 1996

“One Strike and You’re Out” Requirements

As a result of the Housing Opportunity Program Extension Act of 1996, HUD regulations require that PHAs, for Section 8 Certificates, Vouchers and Moderate Rehabilitation Programs, must amend their administrative plan to state their policies implementing the following provisions (Notice PIH 97-27(4)(A)(B)(C)):

- Ineligibility if Evicted for Drug-Related Activity;
- Screening Out Illegal Drug Users and Alcohol Abusers; and
- Terminating Assistance to Illegal Drug Users and Alcohol Abusers.

HUD regulations further require that PHAs establish standards to consider the same elements when screening applicants for Public Housing (Notice PIH 97-27(5)(A)(B)(C)).

Furthermore, HUD regulations require the following statutory changes regarding Public Housing Lease Provisions (Notice PIH 97-27 (5)(D)):

“Public housing lease forms must be amended promptly to provide that the following activities by any resident are grounds for termination of tenancy:

“drug related criminal activity on or off the premises, not just on or near the premises; and...”

“alcohol abuse that the PHA determines interferes with the health, safety, or right to peaceful enjoyment of the premises by other residents.”

“Tenants must be required to execute the new lease/addendum no later than their next reexamination.”

Administration Plan Not Amended

The PHA has not amended its Section 8 Administrative Plan, which was last revised in September 1997, to state their policies implementing the provisions of the Housing Opportunity Program Extension Act of 1996, as required by HUD regulations. The PHA’s Tenant Select Supervisor advised that no further revisions to the Section 8 Administrative Plan had been completed since the last revision.

Low-Income Public Housing Policies Not Amended

PHA policies including, but not limited to, eligibility, evictions, and leasing are included in the PHA’s “Statement of Policies Governing Admission to and Continued Occupancy of the Housing Projects Operated by the Housing Authority of the City of New Britain” (PHA Plan), last revised in January 1995. The PHA Plan does not, however, include the policies implementing the provisions of the Housing Opportunity Program Extension Act of 1996 regarding the screening of tenants. The PHA’s Tenant Select Supervisor advised that the PHA was in the process of updating the plan.

Leases Not Amended Timely

Although PHAs were mandated to update their Low Income Public Housing (LIPH) leases, including outstanding leases, in accordance with the Housing Opportunity Program Extension Act of 1996, the PHA has not done so in a timely manner. As of September 1999, the PHA had updated its lease form for all new tenants and were able to amend the outstanding leases for all of their LIPH elderly tenants. However, the PHA had not updated the outstanding leases for all of their LIPH family tenants.

Comprehensive Grant Program

Grant Requirements

Federal regulations require that upon expenditure by the PHA of all funds, or termination by HUD of the activities funded in a modernization program, a PHA shall submit the Actual Modernization Cost Certificate (AMCC) to HUD (24 CFR 968.145(a)). The AMCC discloses the original funds approved, the funds disbursed, and the actual funds expended.

Federal regulations also require for any FY in which a PHA has received assistance, the PHA shall submit a Performance and Evaluation Report describing its use of assistance in accordance with the approved Annual Statement (24 CFR 968.330).

Expenditures Inaccurately Reported

Despite Federal regulations requiring accurate reporting, the PHA's AMCCs submitted to HUD do not reflect the actual expenditures reported on PHA financial records. Instead the AMCC submitted to HUD, for those grants closed as of December 31, 1998, reflects expenditures mirroring the amount of funds awarded and disbursed by HUD. The PHA's financial records disclose expenditures that differ, at times substantially, from the expenditures reported on the AMCC. The AMCC and the PHA's financial records should coincide with one another.

Since FY 1992, the PHA was awarded annual CGP grants. As of December 31, 1998, the PHA submitted AMCCs for the following grants closed prior to December 31, 1998:

CGP	Grant Awarded and Disbursed	Expenditures per AMCC	Expenditures per PHA's Records	Difference
701	\$1,387,333	\$1,387,333	\$1,587,571	(\$200,238)
702	\$1,532,846	\$1,532,846	\$1,466,604	\$ 66,242
703	\$1,995,958	\$1,995,958	\$2,350,355	(\$354,397)
704	\$1,931,413	\$1,931,413	\$2,010,313	(\$ 78,900)

The PHA's Accounting Manager maintains that the AMCCs submitted to HUD for the above grants accurately reflect project expenditures. As shown above, the PHA financial records did not agree with AMCCs. The PHA was asked to provide a reconciliation, but failed to do so. Without

accurate accounting and reporting, the PHA cannot provide assurance to HUD that the goals of its grant programs are being met, and that grant funds are being spent in accordance with Federal regulations.

Administrative Policies
Need Strengthening

Competent administrative policies and procedures incorporated by a PHA aid the effectiveness and efficiency of its operations. More importantly, the adherence to and delegation of those procedures by PHA administrators ensures the integrity of PHA operations and promotes adherence to applicable regulations. Federal regulations exist not only to guide PHAs in their decision making, but also to protect the interests of the PHA and its tenants. It is up to PHA administrators to ensure that those regulations are adhered to and be willing to take appropriate action when they are not. The PHA, either through inadequate policies and procedures or administrative decisions, allowed deficiencies to occur in a number of areas. The PHA needs to reevaluate its current policies and procedures, and their implementation, to minimize or prohibit future deficiencies.

Auditee Comments

The PHA's response indicated that efforts were made to address the draft audit report recommendations. Specifically, the PHA stated that it: 1) has revised its "smoke alarm agreement" which aggressively takes action against lease-holders, household members or their guests who tamper with, dismantle or otherwise alter a smoke detector within the rental unit; 2) has contracted for a current market study of private unassisted rental units within the City of New Britain, Connecticut, and 3) has updated its Section 8 Administrative Plan and LIPH Admissions and Continued Occupancy Policy to include applicable provisions of the Housing Opportunity Program Extension Act of 1996, and has updated all of its LIPH leases.

Additionally, the PHA recognized and agreed with the discrepancies noted regarding its Comprehensive Grant Program expenditures. The PHA lays the blame with the constant change in upper management in the early and mid 1990s, which resulted in several Comprehensive Grant Programs being opened at the same time and several contracts being split between programs. The PHA further states that the PHA's general ledgers need to be corrected to reflect what is on the Actual Modernization Cost

Certificate and that the corrections needed can be very easily done by journal entry after the proper research is done and the documentation is verified.

OIG Evaluation of
Auditee Comments

The PHA's response, for the most part, addresses the finding's recommendations. We recognize the efforts of the PHA to address the concerns noted and have amended our recommendations accordingly. However, revised written policies and procedures are effective only when followed. The PHA should take great care to ensure that the policies and procedures implemented are adhered to.

Recommendations

We recommend that you require the PHA to:

- 2A. Adhere to its new procedures regarding smoke detector violations, including the assessment of applicable charges against those tenants in non-compliance.
- 2B. Provide evidence that the market survey of private unassisted rental units in the New Britain, Connecticut area, including those owned by Section 8 owners, was performed and is adequate.
- 2C. Provide a detailed schedule of drawdowns and expenditures for Comprehensive Grants 701 through 704 and explain the reasons for discrepancies between the reported expenditures and those listed on the PHA's general ledgers.

Management Controls

In planning and performing our audit, we considered management controls of the Housing Authority of the City of New Britain (PHA), specifically as related to its Low-Income Public Housing and Section 8 Programs, in order to determine our auditing procedures and not to provide assurance on management controls.

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

Relevant Management Controls

We determined the following were relevant to our audit objectives:

- General Administration Accounting
- Management Controls over Program Expenditures
- Management Controls over Procurement and Contracting
- Admissions and Occupancy
- Comprehensive Grant Program Reporting

Assessment Results

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

Significant Weaknesses

Our review identified significant weaknesses over the PHA's ability to properly administer certain aspects in its Low-Income Public Housing and Section 8 Programs. Specific weaknesses were identified in all the management control areas disclosed above. These weaknesses are described in the Findings section of this report.



Auditee Comments

Housing Authority of the City of New Britain

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April 24, 2000

Mr. Stephen D. King,
Acting District Inspector General
U. S. Department of Housing & Urban Development
New England Office of District Inspector General
for Audit, IAGA
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street
Boston, MA 02222-1092

RE: Response to HUD Draft Audit Report
Case #00-BO-XXX-XXXX

Dear Mr. King:

This letter is in response to the March 18th, 2000 preliminary draft of the audit report issued by the U. S. Department of Housing and Urban Development's Office of the Inspector General (OIG). The audit report contained two (2) major findings, as follows:

- Substantial unnecessary legal expenses; and
- Need for improvements in the overall administration of the Housing Authority

In my opinion, it is second area that should be first responded to prior to providing specific comments on any corrective actions.

Specifically, the audit is presented as covering the period from January 1, 1995 through September 30, 1999. This being the case, it seems that a comment and/or response detailing administrative changes and procedures must, in fairness, result in a balanced final assessment. One must consider the substantial changes implemented since 1997 in the administrative operations of the Housing Authority. A determination of the administrative ability of any public entity must be measured with the entire organization and its history in mind. While the Authority does not contest a number of specific findings included in the audit report, the Authority does questions the overall administrative state as concluded in the audit report without factoring in substantial and major administrative changes made since 1977.



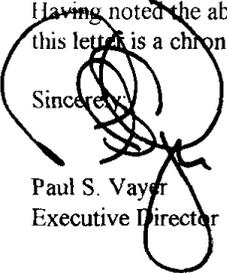
During the course of the audit the Authority has made a continued and proactive effort to specifically identify administrative changes clearly intended to limit the overall administrative problem areas that existed prior to 1977. Many of these changes incorporated commonly accepted and recognized standards of public administration.

While not necessarily all are in the field of public administration (although a number of them are), they certainly represented a change from prior and commonly accepted Authority procedures. A sound and objective evaluation of the current status of the Authority's administrative status must incorporate a methodology that balances the past administrative deficiencies of the Authority with a consideration for administrative changes introduced to address those very deficiencies. A listing (partial) of such changes is attached hereto;

During OIG's audit process, representatives of the Housing Authority attempted to detail these administrative changes. However, there appears no evidence in the preliminary draft that these crucial factors were considered to any meaningful extent. Without these considerations the conclusion in the preliminary draft is inevitable.

Having noted the above, I would now like to itemize what has been accomplished. Attached to this letter is a chronological listing of those changes made since August of 1997.

Sincerely,



Paul S. Vayer
Executive Director

RESPONSE TO FINDING #2- PHA ADMINISTRATION

Smoke Detector Requirements:

The Housing Authority requires all its new residents during lease-up and commencing at its next regular annual income re-certification, to have all current residents sign off on the 'Smoke Detector Agreement'. This newly revised form aggressively takes action against leaseholders, household members or their guests who tamper with, dismantle or otherwise alter a smoke detector within the rental unit. The Authority shall first issue financial penalties and written warnings to residents who have violated this provision. For any resident, household member or guest that have altered the smoke detector on more than one occurrence, staff will refer this family for Eviction Proceedings. This recently revised smoke detector agreement is currently being used for all new lease-ups for both the Family and Elderly developments. (See **attachment B**)

In addition, the Authority has slated, through its Modernization Department, to have all of its family units (Oval Grove and Mount Pleasant) be re-wired and compliant with hardwire and battery back-up capabilities before the end of calendar 2000. All 312 Federal Elderly units are compliant in this area.

Rent Reasonableness Assured- Section 8 Program:

The Housing Authority has contracted with Realty Solutions Center, Southbury, CT to perform a current market study of private unassisted rental units within the City of New Britain. The survey will better enable the Housing Authority to compare unassisted rental unit rents with the Section 8 unit rents for rent comparability.

The Housing Authority did have an instance where a former Section 8 staff member was inaccurately comparing Section 8 rents with other assisted units. This person no longer works for the Housing Authority. All Section 8 staff is fully knowledgeable of rent reasonableness comparability and the regulations regarding practical comparability, i.e. assisted vs. unassisted.

The twelve (12) files previously reviewed by the Inspector General auditors do now have within them, documented rent reasonableness comparisons, comparing assisted vs. unassisted rents within the same geographic location. The following specific areas were reviewed for comparability: rent, location, building type, amenities, facilities, maintenance, utilities and management of the units.

The Housing Authority anticipates utilizing the information obtained from the market study no later than ninety (90) days from the date of the commencement of the market study. (See **attachment C**)

Occupancy Provisions- Housing Opportunity Extension Act 1996

The Housing Authority has worked extremely diligently to insure that all Lease-holders and household members have signed the new "One-Strike and You're Out Lease. The Housing Authority is pleased to announce all households have complied with the signing of the new "One Strike and You're Out" Lease. At the time of the audit, the Authority had completed this task with the Elderly developments and was actively addressing a minor number of family households who had been negligent in this area (48 families). This matter has been rectified with families in 100% compliance.

The Housing Authority's Section 8 Administrative Plan (**See Attachment D**); in addition to the revised LIPH Admissions and Continued Occupancy (**See Attachment E**), which were both revised in late 1999 for the Annual and 5 Year Plans for HUD, do contain the following information as per the Extension Act of 1996:

- a. Ineligibility if evicted for drug related activity
- b. Screening out illegal drug users and alcohol abusers
- c. Terminating assistance to illegal drug users and abusers

The Housing Authority's Department of Public Safety through its Director of Public Safety in conjunction with the New Britain Police Department are working closely together to monitor this area. In addition, detailed applicant screening conducted by the Housing Authority's Tenant Selection Department provides a integral part of the overall review process. As such, the following reports are obtained on each eligible applicant for housing:

- a. Landlord Reference
- b. Credit Report
- c. Police Report (Local & State)
- d. Previous Federal Housing (if any, Conn Tenant Information Center)

This process has been successful in calendar 1999 in denying wait list preference for 10 families seeking housing with recent drug related histories of use and sale.

INSPECTOR GENERAL'S AUDIT REPORT**RESPONSE TO FINDING #2 – COMPREHENSIVE GRANT PROGRAM**

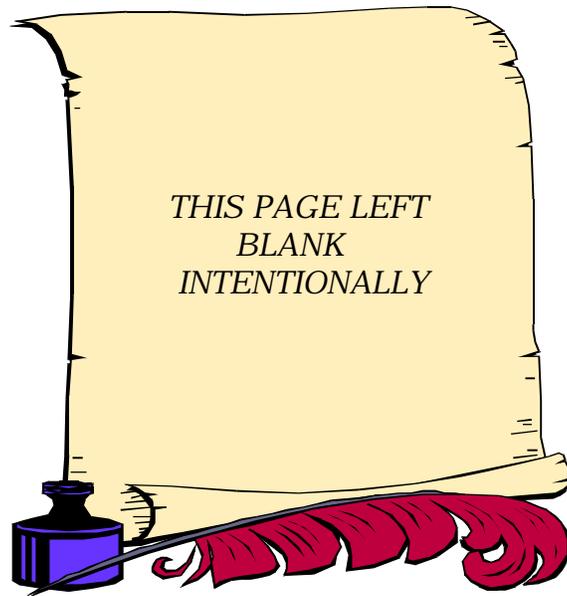
In a audit conducted by the Inspector Generals Of the United States Department of Housing and Urban Developments and issued reponse dated March 14, 2000 it was determined that were discrepancies in comparing the Actual Modernization Cost Certificates for Comp Grant 701, 702, 703, & 704 to their corresponding General Ledgers.

Due in part to the constant change in upper management in the early and mid 1990's the New Britain Housing Authority found itself with several Comp Grant Programs opened at the same time and several contracts were split between programs. Checks were drawn on one program and the drawdown may have been on another program a journal entry should have been made to reflect the change but in most instances it was not, however, revision to the original Comp Grant Budget were made to reflect these changes.

In all four of the above program the funds have been completely drawdown and the Actual Modernization Cost Certificates have been sent to HUD based on the drawdowns and the final revisions. The discrepancies found by the auditors are correct, however, the General Ledgers need to be corrected to reflect what's on the Actual Modernization Cost Certificate. The corrections needed can very easily be done by journal entry after the proper research is done and the documentation is verified.

The Housing Authority has tightened its internal controls over the Comp Grant programs. We draw out of and charge bills to one program until it can be closed out with the proper approval from the local HUD Office under the most recent approved budget revision. Monthly expenditure and drawdown reports are given to the Modernization Department by the Finance Department to ensure the accuracy and integrity of the Comp Grant Program currently in progress. On a quarterly basis obligated and expended amount are entered into the LOCCS Systems.

It is anticipated that through these new corrected control features that the problems outlined in the Inspector General's Audit will be negated.



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