
AUDIT REPORT



CITY OF MERIDEN HOUSING AUTHORITY

MERIDEN, CONNECTICUT

2001-BO-1005

MAY 21, 2001

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	May 21, 2001
Audit Case Number	2001-BO-1005

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

A handwritten signature in black ink, appearing to read "William D. Hartnett".

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

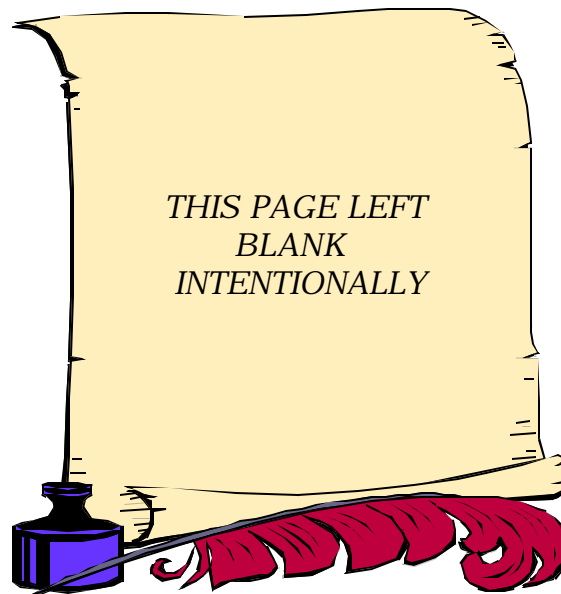
SUBJECT: Housing Authority of the City of Meriden
Meriden, Connecticut

We performed a review of the Low-Income Public Housing and Section 8 Programs of the Housing Authority of the City of Meriden, Connecticut (PHA). The objective of our review was to determine if the PHA's management of its public housing and Section 8 activities is effective and provides decent, safe and sanitary housing for its tenants.

The report contains two findings: 1) the PHA has not strictly followed procurement requirements and 2) the PHA has not administered its Section 8 Certificate and Voucher programs in an effective and efficient manner.

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 Meriden, Connecticut (PHA). The purpose of our review was to determine if the PHA's management of its public housing and Section 8 activities is effective and provides decent, safe and sanitary housing for its tenants. Specifically, to determine whether the PHA is:

- Using its resources and managing its programs and operations efficiently, effectively, and economically; and
- Complying with the terms and conditions of its Annual Contributions Contract (ACC), applicable laws, HUD regulations, and other applicable directives.



Audit Results

Our review disclosed that the PHA has not strictly followed procurement requirements. Furthermore, the PHA has not administered its Section 8 Existing Certificate and Voucher programs in an efficient and effective manner.

The PHA has not maintained a procurement contract administration system that would readily identify their contracting activity, contract amounts, or outstanding obligations on unfinished contracts. Our review disclosed that the PHA often did not obtain the required verbal or written quotations, utilized multiple purchase orders instead of formally contracting, and did not always maintain sufficient records to detail the history of its procurements. As a result, the PHA cannot assure itself or HUD that it obtained the most advantageous prices in its procurement of goods and services.

The PHA also needs to improve its administration of the Section 8 Programs. The PHA's Section 8 Certificate and Voucher programs were under-utilized. The lease-up rates during fiscal years (FYs) 1998 through 2000 averaged 85 percent, less than the 95 percent desired by HUD. In addition, the PHA received \$23,242 in excess subsidy from HUD in the form of ongoing administrative fees for which the PHA was not entitled during FY 1999. The PHA improperly calculated earned ongoing administrative fees by including incoming portable units and units not supported by Housing Assistance Payment contracts.

Recommendations

We are recommending that your office require the PHA to establish adequate procurement management controls to identify, track, and monitor contract awards and establish service contracts for its reoccurring service needs through formal solicitation. Furthermore, the PHA should be required to establish controls over the calculation of ongoing administrative fees and return any excess subsidy claimed. Since the PHA indicated in its response to the draft audit report that the lease utilization rate has increased, no recommendation is required.

Findings and Recommendations Discussed

The findings were discussed with the PHA during the course of the audit. On March 16, 2001, we provided the PHA a copy of the draft audit report for comment. An exit conference was held at the PHA on April 17, 2001 at which time we received the PHA's response. The PHA generally agreed with the contents of the report but noted improvements. Appropriate revisions were made where deemed necessary. We have included pertinent comments of the PHA's response in the Findings section of the report and Appendix B.

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Abbreviations

ACC	Annual Contributions Contract
CEO	Chief Executive Officer
CFP	Capital Fund Program
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
FY	Fiscal Year
HAP	Housing Assistance Payments
HOPE	Housing Opportunities for People Everywhere
HUD	U.S. Department of Housing and Urban Development
IPA	Independent Public Accountant
LIPH	Low-Income Public Housing
PHA	Housing Authority of the City of Meriden
PHAS	Public Housing Assessment System
PIH	Public and Indian Housing
QHWRA	Quality Housing Work Responsibility Act
REAC	Real Estate Assessment Center
SEMAP	Section 8 Management Assessment Program

Introduction

The Housing Authority of the City of Meriden, Connecticut (PHA) was created pursuant to Section 8-40 of the Connecticut General Statutes. The PHA's offices are located at 22 Church Street, Meriden, Connecticut 06451. The PHA provides low rent housing for qualified individuals in accordance with rules and regulations prescribed by the United States Department of Housing and Urban Development (HUD) in accordance with the United States Housing Act of 1937, as amended. The PHA is governed by a five-member Board of Commissioner (appointed by the Mayor of the City of Meriden) which is chaired by Michael Quinn. The Chief Executive Officer, W. James Rice, is responsible for the administration of PHA operations.

The PHA operates both federally and non-federally assisted housing programs through the same Board of Commissioners and staff. As of September 30, 2000, the PHA was administering 1,096 Federal units, 485 low-income public housing (LIPH) units and 611 Section 8 units. The PHA was also administering 255 State units, 40 elderly units and 215 moderate rental units.

In November of 1998, the PHA suffered a computer system "crash". Consequently, the PHA had to convert to a new computer system. The PHA has experienced persistent problems with the start-up of its new system and has not been able to produce the necessary reports that HUD requires. The PHA continues to work with the software provider to improve the functionality of their computerized system and plans to continue its efforts until such time as all problems are resolved.

Through ineffective management of the Comprehensive Grant Program (CGP), the PHA lost \$689,769 in grant funds through recapture by HUD in fiscal year (FY) 2000. This occurred because the PHA did not obligate CGP funds within the two-year timeframe permitted under HUD regulations. As a result, the former Director of Modernization resigned on May 12, 2000 and the PHA contracted with a consulting firm to administer its CGP. The PHA hired a new Director of Modernization during the month of December 2000 and continues to work with the HUD Connecticut State Office, Office of Public Housing, to avoid future recapture of CGP funds.

The PHA is considering pursuing demolition of its Mills Memorial Apartments development through a grant under HUD's Housing Opportunities for People Everywhere (HOPE) VI Program. The PHA intended on submitting a HOPE VI grant application during the spring of 2000, but met heavy resistance from its residents, as well as the Connecticut Civil Liberties Union. The PHA's HOPE VI Consultant recommended that the PHA delay the application submission for a year until the spring of 2001 due to the resident opposition and the possible detrimental impact the recapturing of CGP funds by HUD might have on the PHA's chances of receiving a competitive HOPE VI grant. Currently, the PHA has put its HOPE VI grant application submission plans on hold.

Audit Objectives

The overall audit objective was to determine if the PHA's management of its public housing and Section 8 activities is effective and provides decent, safe and sanitary housing for its tenants. Specific audit objectives were to determine whether the PHA is:

- Using its resources and managing its programs and operations efficiently, effectively, and economically; and
- Complying with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

Audit Scope and Methodology

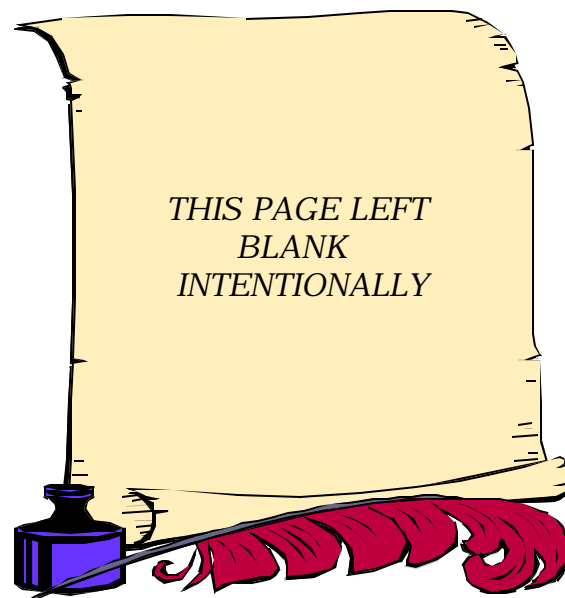
The audit was conducted between August 2000 and January 2001, and covered the period October 1, 1997 through July 31, 2000. The audit period was extended, where necessary, to meet our objectives.

To accomplish the audit objectives, we reviewed procedures and tested compliance as follows:

- Reviewed Federal requirements including Code of Federal Regulations, HUD Handbooks, Public and Indian Housing Notices and Directives.
- Reviewed the PHA's organizational and administrative structure, administrative plans and personnel policies, the recorded minutes of the Board of Commissioners meetings, and procurement and maintenance policies.
- Reviewed Independent Public Accountant reports for FYs 1997, 1998 and 1999, and PHA financial books and records for FYs 1998, 1999 and 2000.
- Reviewed HUD Public Housing Assessment System reports for FYs 1999 and 2000 including inspection reports prepared by HUD's Real Estate Assessment Center (REAC).
- Reviewed files maintained by the U.S. Department of Housing and Urban Development relating to the PHA.

- Selected and reviewed 24 of the PHA's procurements (17 under small purchase procedures (less than \$20,000) and 7 under sealed bid or competitive/noncompetitive proposal procedures (above \$20,000)), as well as the procurement of 2 professional consultants, Secour Associates, LLC (CGP Consultant) and Cornerstone Housing, LLC (HOPE VI Consultant).
- Examined the PHA's annual public housing unit inspection reports and REAC physical inspection reports, work orders, and other maintenance documentation.
- Calculated the PHA's Section 8 program lease-up rates for FYs 1998, 1999 and 2000 in accordance with HUD regulations to determine if the PHA's Section 8 programs met the 95 percent lease-up rate threshold.
- Examined the PHA's computation and support for Section 8 earned ongoing administrative fees for FYs 1998 and 1999 to determine if fees claimed by the PHA were reasonable.
- Reviewed various CGP expenditure reports and Performance and Evaluation Reports to assess the PHA's short/long range plans for its three Federal developments and selected 9 expenditures to ensure CGP eligibility.
- Reviewed documentation and correspondence regarding the PHA's decision to seek demolition of its Mills Memorial Apartments development through the pursuit of a HOPE VI Grant to determine the reasonableness of the PHA's decision.
- Interviewed the PHA's Chief Executive Officer and applicable staff, and staff from the HUD, Connecticut State Office, Office of Public Housing as necessary.

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



PHA Did Not Follow Procurement Requirements

Although the Housing Authority of the City of Meriden's (PHA) procurement policy meets HUD requirements, the PHA does not follow it. Specifically the PHA: cannot readily provide information regarding whom it has contracted with, for how long or for how much, and whether those contracts are expiring or have expired; did not obtain the necessary written/verbal quotations; and utilized multiple purchase orders for the same service instead of formal contracting. Further, the PHA did not properly identify or use evaluation factors with its competitive procurements or adequately document the contracting process. Consequently, the PHA cannot assure HUD that it used full and open competition to obtain the best available prices in its procurement of goods and services.

HUD Procurement Requirements

HUD Regulations on Administrative Requirements for Grants and Cooperative Agreements with State, Local and Federally Recognized Indian Tribal Governments contain Federal procurement standards (24 CFR 85.36). These regulations, in part, require the grantees:

- Maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders (24 CFR 85.36(b)(2));
- Maintain sufficient records to detail the significant history of a procurement to show the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (24 CFR 85.36(b)(9));
- Conduct all procurement in a manner to provide full and open competition (24 CFR 85.36 (c)(1));
- Be placed on pre-award review when their system fails to comply with HUD's required procurement standards (24 CFR 85.36(g)(2)).

As required by HUD Regulations, the PHA adopted its own Procurement Policy (Policy), which complies with HUD procurement regulations and HUD Handbook 7460.8 –

Procurement Handbook for Public Housing Agencies. The Policy provides that all procurement transactions be administered by the Executive Director (currently the Chief Executive Officer), or official designated by the Executive Director. The Policy, however, has not been updated since its creation on July 29, 1991.

Contract Administrative
System Not Maintained

The PHA did not maintain a contract administrative system that would readily identify contracting activity, contract amounts, or outstanding obligations on unfinished contracts. Prior to June 2000, the PHA's former Director of Modernization did maintain a hand-written purchase order ledger dating back to mid 1999. However, the purchase order ledger did not always indicate the goods or services provided, the amount paid or, the date of the procurement.

Upon the former Director of Modernization's resignation on May 12, 2000, the PHA contracted with a Consultant to administer the PHA's Comprehensive Grant Program (CGP). The CGP Consultant created an expenditure report in an effort to identify all of the PHA's CGP expenditures from program inception (Fiscal Year 1993). From the expenditure report, we identified a total of \$1,035,991 expended during the audit period of October 1, 1997 through July 31, 2000.

Quotations Not Obtained

We selected seventeen procurements under small purchase procedures between \$25 and \$20,000 (total obligation of \$36,413 per purchase orders/contracts). With the exception of just two procurements, the PHA did not adhere to its own Policy or HUD procurement regulations. The PHA did not obtain the required verbal or written quotes for 12 of the purchases and no documentation could be located for the other 3. Verbal and written quotations serve to ensure that there is free and open competition and also to avoid the notion that there may be selective favoritism. Without sufficient records to detail the history of a procurement, including the necessary verbal or written quotations, the PHA cannot assure itself or HUD that goods and services were obtained at the most advantageous prices.

Multiple Purchase Orders
Used for Same Service

Services aggregating greater than the PHA's established threshold shall not be broken down into several purchases that are less than the limit merely to permit a contract under the small

purchase procedures. If there is a recurring need for services or supplies, that is estimated to go over the threshold applicable to the PHA, sealed bidding or competitive proposal procedures shall be used rather than small purchase procedures (HUD Handbook 7460.8, REV-1, Section 4-3(A)).

The PHA's Purchasing and Procurement Agent advised that because procurement of small purchases had not been adequately documented in the past, the PHA did not know when formal contracting procedures were applicable. A system is currently being developed which would allow the PHA to determine when formal contracting procedures should be utilized.

Our review disclosed two instances where formal contracting procedures should have been used, where only the purchase order procedure was used. The aggregate amount of payments to each vendor were over \$20,000, the established PHA dollar threshold separating small purchases from sealed bid and competitive proposal requirements:

- The PHA expended \$39,503 (representing seven disbursements between \$425 and \$22,065) during a fourteen-month period from August 1999 through September 2000 for tree services.
- The PHA expended \$24,225 (representing seven disbursements between \$1,000 and \$7,000) during the eleven-month period from December 1999 through October 2000 for painting services.

The PHAs Purchasing and Procurement Agent advised no formal contracts were executed for these vendors.

Typically, a PHA can get lower prices when a larger volume is required or larger quantities are purchased. By procuring reoccurring goods and services on an as-needed basis throughout the year, the PHA has no assurance it is obtaining the most advantageous prices available. Whenever possible, the PHA should solicit competitive price or rate quotes from an adequate number of qualified sources.

Professional Services Not Documented

When procuring Professional Services, PHAs must follow HUD regulations and use the competitive proposals method, in which price is evaluated together with other criteria to choose the proposal offering the best value to the PHA (HUD Handbook 7460.8, REV-1, Section 4-27(B)(1)). HUD regulations further require that “Requests for Proposals” be publicized and identify all evaluation factors and their relative importance, and that proposals be solicited from an adequate number of sources (24 CFR 85.36 (d)(3)(i) and (ii)). The PHA did not adhere to these procurement regulations for two consultants (the CGP Consultant previously referred to and a Housing Opportunities for People Everywhere (HOPE) VI Consultant). As a result, there is no assurance that the PHA obtained the best possible service available.

The PHA procured the services of a CGP Consultant based on a recommendation by the Deputy Director of the Housing Authority of the City of Stamford, Connecticut without the benefit of formal advertising. An Agreement for Consulting Services was executed on June 6, 2000 at an hourly rate of \$75/hour. The PHA’s Chief Executive Officer advised that he considered one additional firm but he could not provide the evaluation factors utilized in selecting one firm over the other. We were further advised by the Chief Executive Officer that the firm not selected was never interviewed for the position, but a resume was submitted for the PHA’s evaluation. The PHA’s Chief Executive Officer advised that he had no prior working relationship with the CGP Consultant and did not know him personally.

Nonetheless, the absence of a formal solicitation and the lack of documentation evaluating the firms may raise the perception, whether warranted or not, that the PHA either pre-selected or favored the firm to whom the contract was awarded. More importantly, the PHA cannot assure HUD that it obtained the best possible service from the most qualified source because it can offer no documentation with regard to how the firms were evaluated, the factors evaluated, and how they reached their conclusion.

To assist in a HOPE VI Program application process, the PHA issued a Request for Qualifications publication during February and March 2000. The PHA received two responses; one from

Cornerstone Housing, LLC and the other from Secour Associates, LLC, the same firm awarded the CGP Consulting contract with the PHA. In response to our draft audit report, we were advised that another firm, Holland and Knight, LLP, submitted a letter of interest but was not evaluated. The PHA's Chief Executive Officer stated that the PHA's former Director of Modernization was responsible for the procurement and recommended Cornerstone Housing, LLC. However, the PHA's Chief Executive Officer advised that he was never presented with a formal memorandum or other type of report or evaluation from his former Director of Modernization on how he came to his conclusion. We were unable to locate any documentation regarding the evaluation factors considered and how the PHA reached their conclusion.

HUD regulations require grantees and sub-grantees to maintain records sufficient to detail the significant history of a procurement (24 CFR 85.36 (b)(9)). In both instances above, the PHA did not maintain sufficient records and there is no assurance that the PHA followed proper HUD Procurement regulations.

HOPE VI Contract Should
be Re-negotiated

On March 10, 2000, Cornerstone Housing, LLC submitted their proposal to the MHA to *“plan, prepare, and submit a comprehensive redevelopment plan (HOPE VI Application) to secure HOPE VI funding by May 18, 2000.”* In its cost proposal, Cornerstone Housing, LLC proposed a fixed fee price of \$166,400 due to the intense deadline pressure (less than 70 days) to meet the requirements specified and submit a HOPE VI application by May 18, 2000. On March 22, 2000, the PHA awarded a contract to Cornerstone Housing, LLC for the proposed amount of \$166,400. According to the contract,

“if performance of this contract is terminated by either party, prior to the completion of the application for the HOPE VI grant, by consultant/developer, the MHA will negotiate in good faith the contract costs to agreed date in time, which will be less than the fixed price of \$166,400.”

The PHA never submitted a HOPE VI application during May 2000 due, in part, to the tenant opposition expressed and the concerns of Cornerstone Housing, LLC itself over the effects

the \$689,769 in CGP funds recaptured by HUD would have on the PHA's HOPE VI application. The PHA's Chief Executive Officer advised that the PHA has put its submission plans on hold. As the "intense deadline" cited in Cornerstone Housing LLC's fee proposal no longer exists, the \$166,400 fixed fee should be re-negotiated by the PHA. The Chief Executive Officer advised that he spoke with the principals at Cornerstone Housing, LLC regarding the need to re-negotiate the contract terms and they were receptive to the idea, but at the time of our review no formal meeting had been scheduled.

Procurement Procedures
Need Improvement

As noted above, the PHA has not adhered to its own procurement policy or HUD procurement regulations. Proper procurement is vital to ensuring PHAs receive the most advantageous prices for goods and services they obtain and to help reduce the negative perception of favoritism that comes with insufficient evaluation documentation.

Auditee Comments

Overall, the PHA did not disagree with our assessment. However, the PHA stated that significant changes have occurred in the Modernization department. The PHA believes that they have taken the necessary steps to ensure that proper procurement requirements are adhered to, and a contract administrative system is in place allowing the PHA to document, track and monitor contract awards and establish a service contract file for its recurring service needs. The PHA disagreed with our conclusion that HUD regulations were not followed in the procurement of their HOPE VI Consultant.

The PHA expressed that its former Director of Modernization left the PHA in May 2000. The PHA stated that, at that point, they were faced with an emergency situation and were attempting to locate, identify and reconstruct all present and past (CGP) purchases. The PHA stated that, at times, the records were either non-existent or unable to be located.

The PHA felt a consultant with considerable modernization and fiscal expertise was an essential, immediate need. The PHA stated that although Secour Associates, LLC was subsequently hired, another firm, Eagle Consulting Services, submitted a letter of interest, but had limited housing experience. The PHA advised that Secour Associates, LLC has located or

reconstructed all necessary records and documentation thereby allowing the PHA to close out four CGPs with the formal approval from HUD.

The PHA stated that Secour Associates, LLC also introduced a computer program that internally monitors all past, present and future expenditure requirements in the Modernization Program and believes the probability of not obligating funds in a timely manner is somewhat negated. Per the PHA, the computer program includes a contract log, which tracks all expenditures and contract payments to the contractor as well as any change orders.

To address our concern that the PHA did not utilize formal bidding procedures for its recurring services, the PHA stated that it obtained formal written proposals from various painting contractors from January 13, 1997 to October 27, 1999. The PHA stated that the painting contractor was hired on an “as needed” basis for painting vacant unit turnovers, when the volume was more than could be handled through the “*in house – maintenance staff.*”

With regard to the PHA’s hiring of a HOPE VI Consultant, the PHA stated that they located a document in which the former Director of Modernization outlines criteria for selection of a consultant. Included in the criteria, a scoring procedure is described which the PHA believes is the criteria utilized by the former Director of Modernization in making his decision to recommend Cornerstone Housing, LLC. The PHA, however, stated that the actual scoring sheet could not be located. The PHA also advised that a number of firms requested information on HOPE VI and one firm sent a letter of interest, but was not evaluated by the previous Director of Modernization. Lastly, the PHA advised that the present Director of Modernization and Procurement contacted a representative of Cornerstone Housing, LLC, requesting that negotiations be reopened and received verbal assurance from the representative that negotiations could be reopened.

**OIG Evaluation of
Auditee Comments**

We recognize the PHA's efforts to ensure that proper procurement requirements are adhered to, and a contract administration system is in place allowing the PHA to document, track and monitor contract awards. We believe the PHA is taking positive steps to address our concerns. Nonetheless, our concerns remain.

At the time of our review, the computer program introduced by Secour Associates, LLC to track all past, present and future expenditure requirements in the Modernization Program, including the addition of a contract log, was a work in progress. Additionally, the PHA recently hired a new Director of Modernization and Secour Associates, LLC is no longer intimately involved in the PHA's operations. Given this transition, we are concerned with the full implementation of the computerized tracking system and the PHA's ability to readily provide information regarding whom it has contracted with, for how long or for how much, and whether the contracts are near expiration or have expired.

Additionally, although the PHA received written proposals for painting services from January 1997 through October 1999, the PHA did not provide any documentation that they ever formally solicited for painting services, whereas responses were received, evaluated, scored, and a decision was made. The written proposals received by the PHA were over the course of almost three years. The PHA, during the course of the audit, advised that because procurement of small purchases had not been adequately documented in the past, the PHA did not know when formal contracting procedures were applicable. The PHA did not address the other recurring service need referred to in the report.

We disagree with the PHA that the HOPE VI Consultant was procured in accordance with HUD regulations and with the benefit of the competitive proposals method. One of the main components of the competitive proposals method is the evaluation of the responses received. The PHA received two formal responses, one from Cornerstone Housing, LLC and one from Secour Associates, LLC. The PHA advised that they also received a letter of intent from a third firm, Holland and

Knight, LLP, but to the best of their knowledge, this firm was not evaluated. The PHA readily admits that they were unable to locate the actual scoring sheet used to evaluate the respondents by the former Director of Modernization and no other evaluation documentation was provided. The PHA cannot document its rationale for selecting one firm over the other and cannot assure HUD that the most advantageous price was obtained. Finally, we commend the PHA for pursuing contract renegotiations with Cornerstone Housing, LLC. As Cornerstone Housing, LLC has not formally responded to the PHA's request, our recommendation remains.

Recommendations

We recommend that your office require and assure that the PHA:

- 1A. Establishes adequate procurement management controls to identify, track, and monitor contract awards and payment activity;
- 1B. Establishes service contracts for its reoccurring service needs by formally soliciting for such contracts; and
- 1C. Pursues contract re-negotiation with Cornerstone Housing, LLC.



PHA Needs To Improve Administration Of Its Section 8 Programs

The Housing Authority of the City of Meriden (PHA) has not administered its Section 8 Certificate and Voucher programs in an effective and efficient manner. Lease-up rates were under the 95 percent threshold desired by HUD. The lease-up rates for fiscal years (FYs) 1998, 1999, and 2000 averaged only 85 percent. The PHA also received excess Section 8 subsidies of \$23,242 due to the improper calculation of ongoing administrative fees.

Utilization Must Be Greater Than 95%

HUD requires that the Field Office monitor the leasing progress of a PHA if there is a substantial discrepancy between the authorized units under Annual Contributions Contract (ACC) and the actual units under lease. HUD desires that at least 95 percent occupancy be achieved. HUD may reduce the number of units authorized if there is a substantial discrepancy in the leasing performance or HUD may prohibit use of all or part of the operating reserve for other housing purposes until HUD determines that administration is adequate (HUD Handbook 7420.3, REV-2, CHG-14, "Section 8 Housing Assistance Payments Program," Chapter 5).

Lease-up Rates Below 95%

The PHA's Section 8 Certificate and Voucher programs were underutilized. The lease-up rates for FYs 1998, 1999, and 2000 were less than the desired 95 percent. The lease-up rates were as follows:

FISCAL YEAR ENDED	LEASE-UP RATE
September 30, 1998	84.81%
September 30, 1999.	84.18%
September 30, 2000	86.34%

The Section 8 Certificate and Voucher programs provide rental assistance to help very low-income families afford decent, safe, and sanitary rental housing. The PHA's failure to maintain an acceptable level of utilization limited affordable housing opportunities for low-income families.

Depleted Waiting Lists

The PHA was aware of the low lease-up rates. The underutilization of the Section 8 programs was caused by depleted Section 8 waiting lists. The waiting lists for 2, 3, and 4-bedroom units were closed to new applicants in March 1993, and the waiting list for 1-bedroom units was closed to new applicants in August 1996. The depleted waiting lists did not provide an adequate applicant pool to select from.

The PHA opened the Section 8 waiting list twice during FY 2000. The PHA also dropped some of the federal preferences in accordance with Sections 514 and 545 of the Quality Housing and Work Responsibility Act (QHWRA) of 1998. The QHWRA repealed the mandatory Federal preferences which included applicants involuntarily displaced, living in substandard housing, or paying more than 50 percent of family income for rent and authorized PHAs to develop locally-based admission preferences based upon local housing needs and priorities. The PHA has since admitted several former public and state housing residents into the Section 8 Program. PHA records indicated that the lease-up rate increased to 91.98 percent as of November 1, 2000. However, in response to our draft audit report, the PHA advised the lease-up rate, as of April 1, 2001, was 95 percent.

Excess Subsidy Received for Administrative Fees

HUD pays a PHA an ongoing administrative fee for each authorized program unit under a Housing Assistance Payments (HAP) contract (24 CFR 982.152(b)). Section 8 portability provisions require a PHA to bill the initial PHA for administrative fees for incoming portable units or absorb those units into its own program (24 CFR 982.355 (d) and (e)). Section 8 portability allows families to move and receive assistance outside of the jurisdiction of the administering PHA (24 CFR 982.353(b)).

The PHA received \$23,242 in excess subsidy from HUD in the form of ongoing administrative fees for which the PHA was not entitled to during FY 1999. The PHA improperly calculated earned ongoing administrative fees by including incoming portable units and units not supported by HAP contracts. The PHA's fee accountant prepared the financial statements and calculated the ongoing administrative fees based on hand written information provided by the PHA. However, there was no evidence that the PHA verified the units under HAP contract.

Auditee Comments

The PHA agreed with our assessment of its lease utilization rate. However, the PHA reported that their utilization rates have steadily increased since our departure, and as of April 1, 2001 the utilization rate was 95 percent. The PHA also stated that as the number of Section 8 applicants dwindled, the waiting list would be re-opened. The PHA did not respond to our concerns regarding administrative fees.

The PHA further pointed out a couple of inaccuracies for our consideration regarding the number of authorized Section 8 units and how Section 8 certificates were issued.

OIG Evaluation of Auditee Comments

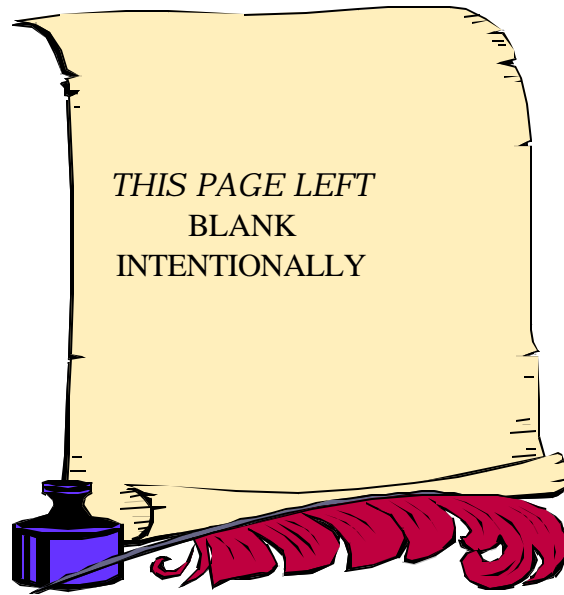
We commend the PHA for its continued efforts to increase its lease utilization rate. Based on the PHA's response and the supporting documentation provided, we consider our concern with the PHA's utilization rate resolved and no recommendation is required. As the PHA did not respond to our concerns regarding administrative fees, the report remains unchanged.

We considered the PHA's comments and made the necessary corrections to the number of authorized Section 8 units and how Section 8 certificates were issued.

Recommendations

We recommend that your office require and assure that the PHA:

- 2A. Establishes controls over the calculation of ongoing administrative fees and provide assurance to HUD that no excess subsidy was claimed for FY 2000; and
- 2B. Returns the excess subsidy in the amount of \$23,242.



Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit objectives. We considered the management control systems of the Housing Authority of the City of Meriden (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 management controls were relevant to our audit objectives:

- General administration accounting
- Management controls over program expenditures
- Management controls over procurement and contracting
- Management controls over the leasing of Section 8 units
- Administration of the Comprehensive Grant Program
- Maintenance operational policies
- Fiscal reporting and management

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

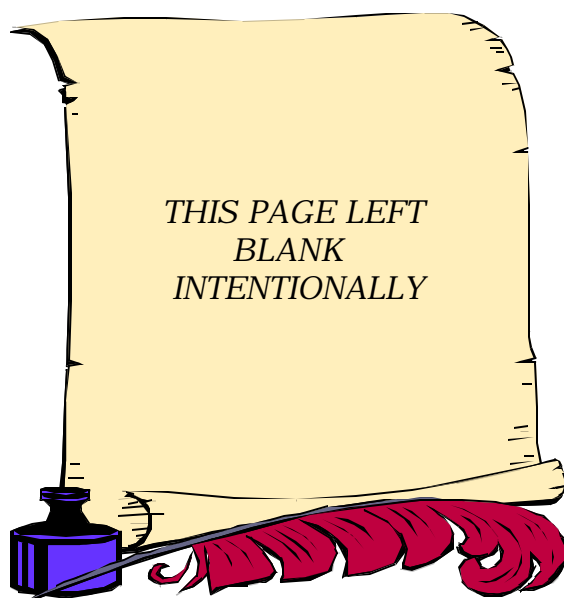
Our review identified significant weaknesses over the PHA's overall procurement procedures and its ability to properly administer certain aspects of its Section 8 Programs. These weaknesses are described in the Findings section of this report.



Ineligible Costs

	Ineligible Section 8 Subsidy (Administrative Fees) <u>1/</u>
Finding 1 <ul style="list-style-type: none"> ○ Excess Section 8 subsidy received in the form of ongoing administrative fees for which the PHA was not entitled during FY 1999 	\$23,242
Total	\$23,242

1/ Ineligible amounts violated law, contract, HUD or local agency policies or regulations.



Auditee Comments



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Chief Executive Officer
 W. James Rice



Carl H. Lohmann
 Chairman
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 Vice-Chairman
 Jennie T. Roccapiore
 Treasurer
 Hector M. Cardona
 Commissioner

TO: William D. Hartnett, District Inspector General, Office of Audit, IAGA

FROM: W. James Rice, Chief Executive Officer 

SUBJECT: Response to the Preliminary Audit Report for the Meriden Housing Authority

DATE: April 17, 2001

After having conducted an in depth review of the preliminary audit report received from your office on March 19, 2001. I would like to make you aware of several policy and procedural changes that have occurred prior to the audit being conducted, which are still in place.

FINDING 1: PHA DID NOT FOLLOW PROCUREMENT REQUIREMENTS

I would like to begin by addressing the issue that the Meriden Housing Authority (MHA) has not strictly followed procurement requirements, established adequate procurement management controls to identify, track, and monitor contract awards or establish service contracts for its re-occurring service needs, through formal solicitation.

Since the recapture of Modernization funds by HUD, significant changes have occurred in the Modernization Department. The former Director of Modernization left MHA in May of 2000, creating a void in the Modernization Department that had to be quickly filled. The MHA has been cited by your auditors for procuring the services of Secour Associates without seeking other proposals from consultants. I would like to point out that MHA was faced with an emergency situation, and was attempting to locate, identify and reconstruct all present and past purchases through the five year Comprehensive Grant

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Program recapture. At times the records were either non-existent or unable to be located in MHA files.

A consultant with considerable modernization and fiscal expertise was an essential, immediate need for the Authority. Although Secour Associates was subsequently hired, another firm, Eagle Consulting Services, did submit a letter of interest to fill the position of Director of Modernization. I have since located and have attached a copy of Eagle Consulting Services qualifications. As you can see by the resume, the firm had no Public Housing experience and only a limited amount of fiscal knowledge, which at this time was of great importance to the MHA. I made the decision to hire Secour after speaking with the Deputy Director of the Housing Authority of the City of Stamford, Connecticut, and an architect from the firm of Fredricksen & Guido, PC in North Haven, CT (see attached letter).

Since hiring Secour all necessary records and documentation were located or reconstructed, allowing MHA to close out four of the Comp Grant Programs, and receive formal close-out approval from HUD. Secour has also introduced a computer program that internally monitors all past, present and future expenditure requirements in the Modernization Program, allowing the present Director an up to the minute reconciliation. With this information on hand, the probability of not obligating funds in a timely fashion is somewhat negated.

Included in this computer program, which tracks spending through grant award, original estimate, revised estimate, obligation and expenditure, is a contract log. The contract log identifies the Contractor, project, amount of award, and tracks all expenditures and contract payments to the contractor as well as any change orders. Presently MHA has entered into formal construction projects with four contractors, whose services were obtained through formal public bidding procedures. Two other formal contracts will be signed in the immediate future for major construction, again through the formal advertised, sealed bidding process. The funding for these projects is through either the CGP or Community Development Block Grant awards.

As you can see significant, positive changes in the Modernization and Procurement areas have been instituted.

The Authority was also cited for expenditures in excess of \$ 20,000.00 without utilizing the formal bidding procedure. The particular vendor was not identified, therefore I can only assume that the vendor may have been a private painting contractor hired on an "as needed" basis for painting vacant unit turnovers, when the volume was more than could be handled through "in house – maintenance staff."

The MHA did obtain formal written proposals from various painting contractors from January 13, 1997 to October 27, 1999. The audit report specifically targeted December 1999 through October 2000. I have included copies of formal proposals submitted by five painting contractors.

1. submitted January 13, 1997 - D. Sayadoff & Company. Although this company was the lowest contractor submitting a proposal, he no longer is employed by the Authority. After viewing an inspecting finished units he was terminated for inadequate job performance.
2. submitted August 1, 1997 - V.A.S.N. Construction Inc..
3. submitted August 24, 1997 - IVERS BROS Painting Contractors.
4. submitted September 2, 1998 - PAPPALLO's Painters.
5. submitted October 28, 1999 - J.B. Nanfito Home Improvement, Inc.

Since being in receipt of the Audit report I have been able to locate documentation regarding HOPE VI and the selection of Cornerstone Housing LLC., as the consultant. A document was located in which the former Director of Modernization outlines criteria for selection of a consultant. A copy of this documentation is attached. On page 3, under **II. Criteria**, a scoring procedure is described. I believe that this is the criteria utilized by the former Director in making his decision to recommend Cornerstone Housing LLC., unfortunately I was unable to locate his actual scoring sheet.

I did locate a list of additional firms requesting information on HOPE VI. Information was subsequently forwarded to these firms, although no formal submission was received. These firms or individuals are as follows: EnviroScience Consultants Inc., of Newington, CT., Gar San Corporation, of Watertown, CT., Community Builders, of New Haven, CT., Swenson and Associates, LLC., of Old Saybrook, CT., and Regan Development Corporation, of Yonkers, N.Y... Additionally I located a copy of a letter of interest from Holland and Knight LLP., of Washington, D.C. received on February 9, 2000. This firm, to the best of my knowledge, was for some reason not evaluated by the previous Director of Modernization.

I believe that the MHA did follow HUD regulations and did use the competitive proposals method for selection of HOPE VI consultant.

On April 12, 2001, the present Director of Modernization and Procurement contacted a representative of Cornerstone Housing LLC., requesting that negotiations be reopened in accordance with items #6 of the amendment to contract (1) dated and signed March 22, 2000. He has received verbal assurances from the firm's representative that they are willing to renegotiate in view of HUD's recapturing of CGP funding, the present political atmosphere, and lack of public support for HOPE VI. I have attached a copy of his letter to Cornerstone Housing LLC.

As you can see MHA has taken the necessary steps to insure that proper Procurement requirements are adhered to, and a contract administrative system is in place allowing the Authority to document, track and monitor contract awards and establish a service contract file for its recurring service needs.

**FINDING 2: PHA NEEDS TO IMPROVE ADMINISTRATION OF ITS
SECTION 8 PROGRAMS**

In your introduction, the number of Section 8 units should be 611, not 612 as stated. Elsewhere in the preliminary report, you do have listed the correct number. As noted in the report, the MHA has been aware of the depleted Wait List situation, and has opened the list twice during calendar year 2000.

As mentioned to your auditors during their time at the MHA, many of the people from the low income public housing and state moderate rental developments were still on the Wait List for the Section 8 program. Certificate/Voucher issuance would have depleted the number of occupied units in those developments, and caused the MHA to incur a significant amount of expense in preparing those units for new residents. Further, the wait lists for low income public housing and state housing are also near depletion, which would cause those units to be vacant.

Your finding states that "The PHA has since admitted several people from public and state housing waiting lists"; this is not the case. Certificates have been issued to former residents of the developments.

The MHA has been issuing certificates, with utilization rates of 94.5% on February 1, 2001, 96% on March 1, 2001 and 95% as of April 1, 2001. The MHA also has plans to re-open the Wait List for Section 8 as the number of applicants dwindle.

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Sharon Pinkerton, Staff Director, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Bldg., Washington DC 20515.

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of Representatives, Washington, DC 20515

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neill House Office Building, Washington, DC 20515

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