AUDIT REPORT

CITY OF BRIDGEPORT
HOME INVESTMENT PARTNERSHIP PROGRAM
BRIDGEPORT, CONNECTICUT

2003-BO-1003

MAY 16, 2003

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS

Issue Date
May 16, 2003

Audit Case Number
2003-BO-1003

TO: Mary Ellen Morgan, Director, Office of Community Planning and Development, 1ED

FROM: Barry L. Savill, Regional Inspector General, Office of Audit, 1AGA

SUBJECT: City of Bridgeport
HOME Investment Partnership Program
Bridgeport, Connecticut

We performed an audit of the City of Bridgeport's (City) HOME Investment Partnership Program located in Bridgeport, Connecticut. The primary purpose of our audit was to determine if the program was operated in an efficient, effective, and economical manner, and if the City complied with HUD regulations and other applicable laws.

A draft discussion report was provided to the City on June 14, 2002. As a result of the issues disclosed in the discussion draft, the City provided a written response on August 14, 2002 and additional documentation thereafter. The Office of Inspector General (OIG) performed additional audit work based on the City's response and additional documents. This subsequent audit work resulted in the OIG questioning additional costs. An exit conference was held with the City on March 12, 2003. The City provided its final response to the OIG on April 25, 2003. Our final report contains one finding: Administration of HOME Program Needs Improvement. We identified $989,929 in unsupported costs.

In accordance with HUD Handbook 2000.06 REV -3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Michael Motulski, Assistant Regional Inspector general for Audit, in our office at (617) 994-8380

Table of Contents
Print Report

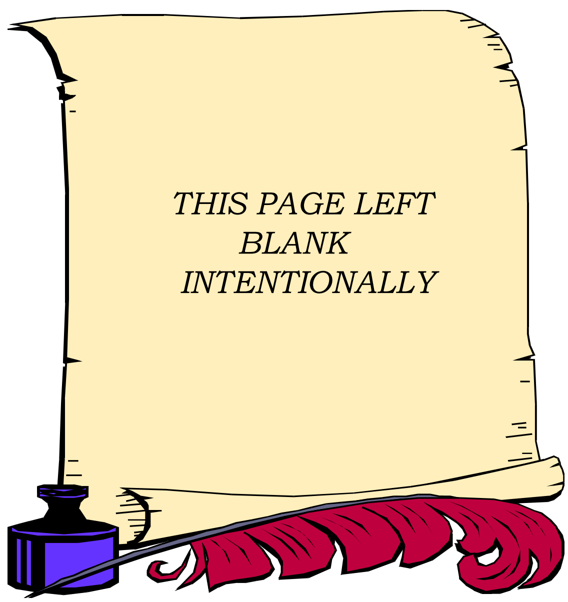


Table of Contents

Print Report

Executive Summary

We performed an audit of the City of Bridgeport's (City) HOME Investment Partnership Program located in Bridgeport, Connecticut. The primary purpose of our audit was to determine if the HOME Program was operated in an efficient, effective, and economical manner, and if the City complied with HUD regulations and other applicable laws.

Audit Results

The City needs to improve its administration of the HOME Program to ensure that the program is run in an effective and economical manner and in accordance with applicable HUD regulations. The City could not provide adequate documentation to support the basis for the contract awards for thirteen developer projects that received $989,929 in HOME Program funds. The City also allowed developers to award contracts to contractors that had an ownership interest in the properties in violation of its contract terms with the City. Also, since sale proceeds netted by the developers upon the resale of the HOME assisted properties were not considered as a funding source, developers of Homeownership properties might have realized potentially excessive profits of 46%. We further determined that the City did not ensure proper affordability requirements were applied for HOME assisted properties nor did they monitor HOME assisted properties adequately. As a result, $989,929 in HOME Program funds is considered unsupported.

Recommendations

We recommend that you require the City to provide documentation to justify the necessity and reasonableness of project costs, including profits, for the thirteen developer projects or reimburse the HOME Program $989,929 from non-federal funds. We also recommend the City develop and implement procedures to ensure construction/rehabilitation plans are reasonable and in sufficient detail to support all project costs and that all funding sources are considered when determining HOME awards. Furthermore, we recommend the City establish and implement procedures to ensure HOME Program affordability requirements and resale/recapture provisions/amounts are properly established. In addition, the City should review all completed HOME Program projects to determine if the correct affordability time periods were implemented. Any agreements not in compliance should be modified accordingly. Furthermore, the City should monitor all HOME projects in accordance with HOME regulations to ensure homebuyers/tenants are eligible. Lastly, the City should adequately train personnel and monitor properties to ensure compliance with HUD regulations.

Findings and Recommendations Discussed

A draft discussion report was provided to the City on June 14, 2002. As a result of the issues disclosed in the discussion draft, the City provided a written response on August 14, 2002 and additional documentation thereafter. Additional audit work was performed based on the response and additional documents. The subsequent audit work resulted in additional questioned costs. A final draft report was provided to the City on March 12, 2003. We discussed the revised findings with the City during an exit conference on March 12, 2003. We included the City's final comments, dated April 25, 2003, in the Finding section of this report. The City's complete response is included in Appendix B.

Table of Contents

Print Report

Abbreviations

CFR	Code of Federal Regulations
CHDO	Community Housing Development Organization
City	City of Bridgeport, Connecticut
CPD	HUD Office Community Planning and Development
HOME	HOME Investment Partnership Program
HUD	U.S. Department of Housing and Urban Development
IOI	Identity-of-Interest
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

The City of Bridgeport (City) receives funding under HUD's HOME Investment Partnership Program (HOME). The HOME Program, established under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for very low and low-income households.

The purpose of the HOME Program is twofold: 1) to expand the supply of decent, safe, and affordable housing for very low-income and low-income Americans, and 2) to strengthen public-private partnerships in the production and operation of such housing. The HOME Program gives participating jurisdictions discretion over the type of housing activities to pursue. This discretion includes acquisition, rehabilitation, new construction, and resident based rental assistance. In addition, participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, and interest subsidies. Up to ten percent of the HOME Program funds received by the participating jurisdiction may be used to administer the program.

The City was awarded HOME Program funds totaling $14,016,000 for Program Years 1992 through 2000. As of December 20, 2000, the City had drawn down $9,616,488 in HOME Program funds from HUD. The City uses HOME funds for new construction of low-income rental units, to rehabilitate low-income rental and homeownership properties, and to assist first time homebuyers with low and moderate-incomes to purchase a home. As of January 8, 2001, the City had expended a total of $8,809,049 for HOME Program activities excluding administration and planning cost as follows:

Programs	Amount	No. Of Grants	No. Of Completed Units
New Construction	$1,066,154	3	51
Rehabilitation	5,261,687	43	239
Acquisition & Rehabilitation	1,134,138	5	25
Acquisition Only	483,217	5	23
Total	**$7,945,196**	**56**	**338**
Tenant Based Rental Assistance	$863,853		
Total	**$8,809,049**		

Table of Contents Print Report

In addition to receiving HOME Program funds directly from HUD, the State of Connecticut provided $715,260 in HOME Program funds to the City of which $699,398 was expended as follows:

Programs	Amount	No. Of Grants
New Construction	$150,000	1
Rehabilitation	515,260	4
Acquisition Only	34,138	1
Total	**$699,398**	**6**

The City's HOME Program records are maintained at the City's Office of Planning & Economic Development, Housing and Community Development Office located at 45 Lyon Terrace, Bridgeport, Connecticut. The property owners or managers of the completed rental projects maintain the detailed documentation verifying the tenants' income status ensuring eligibility for low-income housing as well as annual recertification documentation.

Audit Objectives

The overall audit objective was to determine if the City operated its HOME Program efficiently, effectively economically and in compliance with HUD regulations and other applicable laws. Specifically, we determined whether the HOME Program funds expended by the City were utilized to expand the supply of decent, safe, sanitary, and affordable housing opportunities for very low and low-income residents in the Bridgeport area; and if the City monitored the properties developed as rental units for very low and low-income residents to ensure they are maintained as decent, safe and affordable housing.

Audit Scope and Methodology

To accomplish our audit objectives, we:

- Reviewed the applicable HUD regulations to gain an understanding of HOME Program requirements;

- Interviewed the HUD Connecticut State Office Community, Planning and Development (CPD) staff that oversee the City's HOME Program for information regarding the administration of the program and HUD monitoring performed;

- Examined records, plans, performance evaluations and Integrated Disbursement and Information System reports maintained by the HUD Connecticut State CPD Office to obtain information on the use of HOME Program funds;

- Interviewed the City's managers and staff who administer the HOME Program to gain an understanding and identify procedures and controls over the HOME Program;

- Reviewed the City's records including deposits, disbursements, balances, and supporting documentation for the period from July 1, 1997 to December 20, 2000 to identify the highest funded activities;

- Selected four grants (one from each of the City's four Home Programs: New Construction, Rehabilitation, Acquisition and Rehabilitation, and Acquisition); reviewed the selected grants to determine whether: the owners or tenants of the property were eligible to receive assistance; the time period for affordability was calculated correctly; and the projects funded met local housing codes and standards and HUD Housing Quality Standards;

- Performed site inspections on the selected four projects to ensure that properties existed; the number of units was accurate; the condition of the properties was adequate; and that eligible owners/tenants were occupying the units;

- Examined ten HOME Program rehabilitation grants that funded thirteen properties (sold since the inception of the HOME Program) to determine if they were purchased by qualified low-income buyers and/or were occupied by low-income tenants; and whether the program funds were administered in accordance with HUD regulations; and

- Examined the City's current monitoring policies and procedures to assure assisted housing is decent, safe, and sanitary and benefited low-income families.

For transaction testing methodology, we used non-representational samples rather than statistically valid samples. The non-representational sample methodology was more appropriate for audit testing on the grants reviewed.

We conducted the audit from January 2001 to June 2001. The audit covers the City's HOME Program operations from July 1, 1997 to December 31, 2000. We expanded the scope of our review as necessary.

A draft discussion report was provided to the City on June 14, 2002. As a result of the issues disclosed in the discussion draft, the City provided a written response on August 14, 2002 and additional documentation thereafter. Based on the supplemental documentation, additional audit work was performed. This included identifying total development costs and funding sources for thirteen projects sold within the period of affordability and reviewing the cost justification for the HOME award to determine its sufficiency. The subsequent audit work resulted in additional questioned costs.

We performed our audit in accordance with generally accepted government auditing standards.

Administration of HOME Program Needs Improvement

The City of Bridgeport (City) has not administered its HOME Investment Partnership Program (HOME) in accordance with HUD regulations. The City:

- Could not demonstrate that rehabilitation costs for thirteen projects, funded with $989,929 in HOME funds were justified and reasonable;
- Allowed developers to contract with identity of interest contractors contrary to the written agreement;
- Failed to ensure that HOME Program funds were used efficiently resulting in potentially excessive rehabilitation costs and developers profits upon sale of the properties to homebuyers;
- Failed to properly apply recapture/resale provisions/amounts in the event of resale for projects;
- Imposed incorrect periods of affordability for projects; and
- Did not maintain adequate documentation demonstrating that the projects were sold to and/or occupied by low-income families and did not adequately monitor the tenant's eligibility and condition of the HOME assisted properties.

These conditions were caused by the City's failure to follow Federal regulations and their own polices and procedures. Issues surrounding several of the properties remain a continuing interest of the Office of Inspector General. As a result, we question $989,929 in HOME allocations as being unsupported.

Home funds Not Used in Accordance With Regulations

HOME Program regulations provide that the participating jurisdiction is responsible for managing the day to day operations of its HOME Program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility (24 CFR Part 92.504(a)).

Under the City's HOME Rehabilitation Program, the City and the selected developer execute a HOME Investment Partnerships and Community Development Block Grant Assistance Programs Agreement. Under this Agreement, rehabilitation contractors are required to have: "*…no private or personal interest in this property.*" The Agreement also requires a construction or rehabilitation plan that would provide: *"cost estimates for the construction or rehabilitation activities itemized by each specific improvement*." In addition, the developer and the selected contractor execute a HOME Investment Partnerships Program, Contractor Agreement. Costs incurred under these agreements must be reasonable and supported per 24 CFR 84.82.

As of December 31, 1999, the City entered into 43 agreements with developers to rehabilitate properties at a total cost of $5,804,353.

We reviewed a total of thirteen developer driven projects sold during the period of affordability. These thirteen projects received a total of $989,929 in HOME awards as follows:

Project	**HOME Award**
49-51 Yale St	$100,000
93-95 Yale St	$75,000
83-85 Yale St	$75,000
297 Hanover St	$49,912
81 Freemont St	$81,000
235-237 Hanover St	$100,000
71-73 Yale St	$90,000
350-352 Hanover St	$44,000
354-356 Hanover St	$44,410
96 Clinton Ave	$90,000
201 Norman St	$100,000
841 Iranistan St	$100,000
344-346 Hanover St	$40,607
TOTALS	$989,929

A review of these thirteen projects disclosed that: 1) Cost documentation was inadequate to justify the reasonableness of the rehabilitation costs funded with $989,929 in HOME funds; 2) The contractor selected to perform the rehabilitation work had an ownership interest in the property in ten cases contrary to the written agreement; and 3) The developers potentially earned excessive profits since the City did not consider, as a source of project funding, sale proceeds netted by these developers upon resale of the properties to the homebuyers.

Cost Justifications and Reasonableness

Cost documentation for the rehabilitated properties consisted of vague specifications and cost estimates that did not contain sufficient detail to determine if costs were reasonable. The developers listed total figures without detail—such as the amount of materials needed for rehabilitation or the grade of components to be used. For example, the developer's cost estimate for 96 Clinton Avenue listed items such as Demolition $24,000; Doors, Windows, and Glass $19,000; and Equipment $2,000. The cost estimates did not identify the amount, type, and quantity of materials, the estimated labor hours/costs, or the estimated completion dates. Without specific information, the costs are questionable.

As part of its initial response to the audit results the City advised that they could provide cost justifications. We requested the City to provide such documentation for review and as such, we received specifications for nine projects, six that included cost breakouts. The City's response also included letters indicating there were competitive bids for three of the nine projects. These specifications and cost estimates were the same documents deemed inadequate during the audit. The City stated that for all nine projects, and for all projects the City funds, they analyze the cost factors to insure accuracy and completeness of specifications and to determine that the amount of funds to be spent are reasonable for the scope of work to be performed. The City further advised that the historic status of the projects justified cost premiums. However, the City did not provide any basis or criteria used to support either statement.

Additional audit work was performed as a result of the City's response. This included evaluating the cost documentation to determine adequacy and cost reasonableness, as well as the City's statements. We also identified an additional four developer driven projects,

Table of Contents Print Report

bringing the total of projects where additional audit work was performed to thirteen.

The specifications provided were too vague to determine cost reasonableness. In fact, a contractor submitting a bid for the three projects where bids were provided qualified the bid by stating "It is important to note that the various requirements outlined in the specifications are vague (i.e. type of heating units, cabinets, etc) and the above mentioned price is subject to change." Also, the bid letter from the selected contractor for the 49 Yale Street project (one of the three that contained competitive bids) stated "The estimate is based on the specifications dated April 26, 1993" while the attached specifications were dated January 31, 1994. It is unclear what specifications the second bidder, who wasn't awarded the job, used.

Specification Inconsistencies in Cost Estimates

In addition to the vagueness, the specifications and cost estimates contained inconsistencies. For example:

- The specifications for 297 Hanover Street were dated June 1, 1994 and the cost breakout, including the contract sum amount was also dated June 1, 1994 indicating that the specifications and contracts were prepared on the same day.

- The specifications provided for 350-352 Hanover Street do not match up to the items in the cost breakout.

- The cost estimates for 83 Yale Street and 95 Yale Street both include a $500 estimate for "Excavation" and a $1,000 estimate for "Insulation", but neither project's specifications include such items.

- The specifications for 350-352 Hanover Street included such items as installing two fire doors at the entrances to the apartments for the internal stairwells, installing 25 new Elite interior doors throughout, and installing 40 vinyl windows. However, the specifications for 354-356 Hanover Street project included similar specifications except that they provide for ten fire doors at the entrances to the apartments for the internal stairwells, installing 50 new Elite interior doors throughout, and installing 96 vinyl windows. Tenant documentation provided by the city indicated that both properties were three family homes each with six rooms. We could not reconcile the apparent inconsistencies.

Contracts With Identity of Interest (IOI) Contractors

We also determined that contractors having an identity of interest (IOI) in the projects, which is not permitted per the written agreement, rehabilitated ten of the thirteen projects. The Contractors' Agreements show ownership interest. The City should have been aware of this violation because a copy of each property's Construction Agreement was in the City's file.

IOI relationships in contracting result in less than arms length bargaining bringing into question the cost reasonableness of the transactions.

Cost Reasonableness Not Justified

Given the: 1) vagueness of the specifications; 2) IOI relationship between many of the owners and contractors; 3) absence of competitive bids; 4) lack of any rationale, basis, or criteria utilized to determine cost reasonableness and justification; and 5) absence of documentation to support the historic status of the project to justify a cost premium, the issue of cost determination and justification remains unresolved.

In it's April 25, 2003 response, the City contends that the costs were reasonable for the units, but provides no documentation to support this claim.

The City agrees that the IOI relationships were a problem. The deals were structured with the intention to minimize risk and costs by maintaining private ownership through all or a portion of the rehabilitation. The City advised that this practice is no longer permitted.

The City also agrees that the bidding was inconsistent and notes that current practice provides that all bids are developed with city staff and are advertised and procured through the City Purchasing Department to increase competition and fairness. The City advises that this practice is several years old.

Potentially Excessive Profits by Developers Upon Resale

HOME regulations require the City to maintain records that identify the source and application of funds for each project, including supporting documentation in accordance

Table of Contents

Print Report

with 24 CFR Part 85.20, Standards for Financial Management Systems (24 CFR Part 92.508(a)(3)(ii).

Grant and program funds provided by the Federal government are required to be spent in such a way that represents "best use" of the funds and provides maximum benefit to the intended beneficiaries. Public support for programs such as HOME is based in part upon the requirements of OMB circulars A-87 (Cost Principals for State, Local, and Indian Tribal Governments) and A-122 (Cost Principals for Non-Profit Organizations) that require funds to be spent in a prudent manner that a reasonably responsible person would spend them.

Of the thirteen projects discussed above, we were able to obtain enough information, either through review of the project files or by using Lexis/Nexus, to determine the potential profit for six. We identified funding sources totaling $1,137,575 (see Column C below) and development costs totaling $777,049 (see Column F below), resulting in potential profits realized on these six HOME funded properties totaling $360,526 (total sources minus total costs). Using HOME funds to pay potentially exorbitant profits of approximately 46% ($360,526/$777,049) is not prudent and reduces the amount of funds available to benefit low-income families.

Project	HOME Award (A)	Sale Proceeds (B)	Total Funding Sources (C) (A) + (B) = (C)	Acquisition (D)	Rehabilitation (E)	Total Development Costs (uses) (F) (D) + (E) = (F)	Potential Profits Sources Minus Uses (G) (C) - (F) = (G)
49-51 Yale St	$100,000	$120,000	$220,000	$1.00	$196,000	$196,001	$23,999
93-95 Yale St	$75,000	$100,000	$175,000	$1.00	$137,000	$137,001	$37,999
83-85 Yale St	$75,000	$97,000	$172,000	$1.00	$128,000	$128,001	$43,999
297 Hanover St	$49,912	$73,800	$123,712	$6,500	$58,858	$65,358	$58,354
81 Freemont St	$81,000	$137,500	$218,500	$4,000	$116,578	$120,578	$97,922
235-237 Hanover St	$100,000	$128,363	$228,363	$1,226	$128,884	$130,110	$98,253
TOTALS	$480,912	$656,663	$1,137,575	$11,729	$765,320	$777,049	$360,526
Potential Profits (G/F)							46%

Subsequent to the exit conference the City reviewed the project files for eight projects, including the six discussed above. The City's review disclosed that related soft and other land costs were not accounted for as part of the profit analysis. The City provided a spreadsheet showing soft and hard costs calculations, which if determined as reasonable, could significantly reduce the profit margin.

It should be noted that this information was requested during our review of the initial response. On September 19, 2002, we requested a source and use statement showing all project costs. We explained that we were interested in the profits/developer fees generated by the projects and wanted to ensure that excessive profits were not realized. The documentation provided by the City in response to this request did not include any project soft costs.

In addition, while the City contends that the project incurred soft costs not accounted in the total project costs, the City did not provide any documentation to support whether these costs were reasonable and/or necessary project expenses.

The City also states that in many instances the sale proceeds were less than the sales price as a result of direct subsidies to the homebuyers. The direct subsidies were shown as mortgages at project closing, but no cash was exchanged. HUD-1 Settlement Statements were not provided to evaluate this contention, nor was any documentation provided that would serve as a basis for any direct subsidy, such as an after rehabilitation appraisal. The direct subsidy; i.e. mortgage, would be the difference between the sales price and the fair market value. However, we agree that if actual cash proceeds differed from the stated sales price, the stated profits would be reduced.

In addition to the cost justification concerns discussed above, our audit disclosed three reportable areas of non-compliance including: 1) improper application of subsidy recapture provisions/amounts; 2) incorrect periods of affordability; and 3) deficient monitoring of projects and a lack of adequate documentation to demonstrate compliance. These issues are discussed below.

Improper Recapture Provisions/Amounts

To ensure that the HOME investments yield affordable housing over the long-term, HOME regulations impose affordability periods on projects assisted with HOME funds. To ensure affordability, the City must impose either resale or recapture requirements (24 CFR Part 92.254(a)(5)).

Resale restrictions provide that, if a home does not continue to be the initial purchaser's primary residence for the duration of the period of affordability, it must be made available for subsequent purchase only to a buyer whose family qualifies as low-income and will use the property as its primary residence (24 CFR Part 92.254(a)(5)(i)). Recapture provisions allow the participating jurisdiction to recoup all or a portion of the HOME assistance provided to the home-buyer, if the housing does not continue to be the principle residence of the family for the entire affordability period (24 CFR Part 92.254(a)(5)(ii)).

The HOME investment subject to recapture is based on the amount of HOME assistance that enabled the home-buyers to buy the dwelling unit. This includes any HOME assistance that reduced the purchase price from a fair market value to an affordable price (direct subsidy), but excludes the amount between the cost of producing the unit and the market value for the property (development subsidy). If the HOME assistance is only used for the development subsidy and therefore not subject to recapture, the resale option **must** be used (24 CFR 92.254(a)(5)(ii)(A)(5)).

Our audit determined that the recapture provision was incorrectly applied for developer driven projects sold to homebuyers. Since the homebuyers did not receive any direct assistance and the only assistance provided was in the form of a development subsidy, resale restrictions were mandated. Instead, the City had the homebuyers assume the development subsidy at a reduced amount.

As discussed in the excessive profit section above, the City has stated that in many instances the sale proceeds were less than the sales price as a result of direct subsidies to the homebuyers. The direct subsidies were shown as mortgages at project closing. We note that the City did not provide any documentation that would serve as a basis for any direct subsidy, such as an after rehabilitation appraisal. The direct subsidy; i.e. mortgage, would be the difference between the sales price and the fair market value. We agree that the difference between the fair market vale and the

Table of Contents Print Report

actual sales price would constitute a direct subsidy and be subject to the recapture provision.

Incorrect Affordability Periods

The City did not ensure that HOME Program affordability requirements were applied in accordance with HUD regulations. Specifically, the City did not impose the correct minimum period of affordability for rental housing jeopardizing the projects' long-term affordability in the event of resale.

To preserve the supply of decent, safe, sanitary, and affordable housing, HUD requires that HOME-assisted properties meet the affordability requirements for the applicable period specified by HUD upon project completion. The requirements for affordable rental housing units apply without regard to the term of any loan or mortgage or the transfer of ownership and they must be imposed by deed restrictions, covenants running with the land, or other mechanisms approved by HUD to ensure affordability (24 CFR 92.252(e)).

We selected four completed grants and determined that affordability period requirements were not met for two of the four grants. The affordability periods for rental housing and homeownership activity are based on the amount of assistance per unit. Grants provided for new construction or acquisition of newly constructed housing required a twenty-year affordability period (24 CFR 92.252(e).

Our review of the rental housing activity grant for 1041-1057 East Main Street identified assistance of $53,826 per unit. Rental housing activity grants receiving over $40,000 require a minimum affordability period of 15 years per 24 CFR 92.252(e). The City imposed an affordability period of only five years in violation of HUD regulations. A City official determined the affordability period based only on the cost for the rehabilitation of 1041-1057 East Main Street and did not include the cost of the property.

Our review of the grant for 1027 Fairfield Avenue, a new construction project, indicated assistance of $11,364 per unit. The City indicated that the project is mutual housing which constitutes homeownership and therefore carried a five-year affordability period according to 24 CFR

Table of Contents Print Report

92.254(a)(4). According to HOME regulations, "homeownership" means ownership in fee simple title or a 99-year leasehold interest in a one to four unit dwelling or in a condominium unit, *or equivalent form of ownership approved by HUD*. Our review disclosed that this project should have been classified as a rental project because the occupants do not have ownership interest. Therefore, the City should have applied a twenty-year affordability period per 24 CFR 92.252(e). As a result of our audit, the City agreed that a review of affordability terms for all its completed projects was needed and would be performed.

The City's response concurred with our issue and instituted deed restrictions for the properties cited above. Also, the City advised that they conducted a review of all HOME projects to ensure proper affordability periods are in effect.

Monitoring Eligibility and Property Condition

As a participating jurisdiction, the City is required to monitor the eligibility of tenants and the property condition during each property's affordability period. Tenant eligibility must be monitored annually while property conditions on a periodic basis. For rental units, the income of each family must be determined *initially* by the examination of source documents such as wage/salary statements, bank statements (showing interest), or unemployment compensation statements for family members. This income determination is necessary to ensure that only eligible families receive assistance, as required by 24 CFR 92.203(a)(1) and 24 CFR 92.252 (h). During a property's affordability period, on site inspections are required every three years for projects containing one to four units, every two years for projects containing five to twenty five units, and every year for projects containing twenty six or more units (24 CFR 92.504 (d)).

The City has not monitored HOME Program assisted properties adequately to ensure compliance with HUD regulations even though the City receives funds for this purpose. The City advised that they did no monitoring between April 1999 and July 2000 due to the retirement of the person assigned to monitoring duties. In July 2000, they hired a new manager to perform monitoring. The manager who had no previous monitoring experience was given no formal training and was expected to learn the monitoring duties through on-the-job experience. The failure to

Table of Contents Print Report

adequately train personnel and monitor properties increased the risk that tenants were living in substandard housing and that unqualified tenants were receiving assistance under the HOME Program.

Subsequent to our fieldwork, the City was able to produce documentation, with one exception, to support eligibility on the projects questioned during our review. The one exception was the owner of 49-51 Yale Street. This property received $100,000 in HOME funds. The City was able to provide documentation that the tenant in the rental unit of 49-51 Yale Street was eligible and as a result contends that the City should only be liable for the owner's unit at $50,000 (one half of the HOME subsidy). Since we have already questioned the $100,000 in HOME funds based on the City's inability to demonstrate the reasonableness of the project costs we would agree that $50,000 ought to be repaid if the City ultimately provides adequate project cost documentation.

We note that the majority of the documentation to support tenant/homebuyer eligibility was tax returns. HOME regulations require that the participating jurisdiction initially determine annual income by examining the source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the family (24 CFR Part 92 203(a)(i)). Income eligibility is based on anticipated income. Prior years tax returns do not establish anticipated income; nor are they adequate source documentation. However, upon review of the documentation provided we believe that the families were eligible. Therefore, we will not require the City to produce additional source documentation. However, in the future, the City should adhere to HOME regulations to determine income eligibility. If the City does not strictly adhere to the regulations the potential exists that unqualified families could obtain benefits.

Auditee Comments

The City's response (Appendix B) concurs with the OIG that IOI contracting was a problem and that the practice is no longer permitted. Also, the City agrees that bidding was inconsistent and the procedures governing bid specifications and advertising have been changed. The City states that mistakes were made by community housing development organizations (CHDOs) and " in fact, one CHDO no longer exists." In addition, the City does not believe that HUD fully accounted for all the land and soft costs that are included in the project nor recognize the direct subsidies to homeowners by way of mortgage instruments. Finally, the City indicates that documentation is available to back up the reasonableness of costs and profits.

Regarding affordability, the City has assigned staff to monitor affordability and confirm resale restrictions. The City is also reviewing affordability and recapture language in all HOME projects.

The City's response on eligibility issues indicates that documentation is available for all projects and the documentation shows (in all but one case) that income eligibility had been achieved. In the City's response to the OIG, dated August 8, 2002, the one case where the owner was ineligible but the tenant was eligible (49-51 Yale Street), the City stated it should be liable only for the owners unit at $50,000 (one half the Home subsidy to the entire project).

Finally, the City states that staff monitoring and training is being increased.

OIG Evaluation of Auditee Comments

Since the City concurs that IOI contracting was a problem, bidding and specification practices were inconsistent, and mistakes were made by the CHDOs, our position that these conditions resulted in unsupported costs and profits remains unchanged. In addition, after repeated requests and meetings explaining what auditable and verifiable documentation would be sufficient to satisfy our questioned costs, the City has failed to provide the data.

The City's response asserted that HUD did not fully account for all the land and soft costs that are included in the project and the comments regarding profitability in the audit be revised. Again, after repeated requests for auditable documentation on all sources and uses of funds for the projects, the City only provided an excel worksheet for 8 projects that combined rehabilitation and soft costs as one number and showed alleged cash proceeds, net of direct subsidies provided. No auditable data or support was provided. In addition, no documentation (i.e. after rehabilitation appraisal) was provided that would serve as a basis for any direct subsidy. Therefore, our recommendations remain unchanged.

We concur with the City's response related to eligibility.

We consider the City's actions to assign staff to monitor affordability and confirm resale restrictions and review affordability and recapture language in all HOME projects to be responsive to our recommendations. Also, the City's action to increase staff monitoring and training is positive. The City should provide specific details on these actions so they can be verified.

Recommendations

We recommend that you require the City to:

1A. Provide documentation to justify the necessity and reasonableness of project costs, including profits for the thirteen developer projects, or reimburse the Home Program $989,929 from non-federal funds.

1B. Develop and implement procedures to ensure construction/rehabilitation plans are reasonable and in sufficient detail to support all project costs.

1C. Consider and document all funding sources, including sale proceeds, when determining HOME awards.

1D. Establish and implement procedures to ensure HOME Program affordability requirements, resale and/or recapture provisions are properly established.

1E Review all completed HOME Program projects to verify the accuracy of amounts subject to recapture and ensure that affordability time periods are properly implemented. Any agreement found not in compliance should be modified accordingly.

1F. Monitor all HOME projects in accordance with HOME regulations to ensure homebuyers/tenants are eligible and document accordingly.

1G. Adequately train personnel and monitor properties to ensure compliance with HUD regulations.

Management Controls

In planning and performing the audit, we considered the management controls of the City of Bridgeport (City) that were relevant to the audit, in order to determine our audit procedures and not to provide assurances on internal controls.

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

Relevant Management

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

- Policies and procedures to ensure that HOME Program funds benefit eligible families;
- Monitoring of sub-recipient and contractor performance to ensure compliance with HOME Program requirements and written agreements; and
- Properly accounting for the expenditure of Program Income.

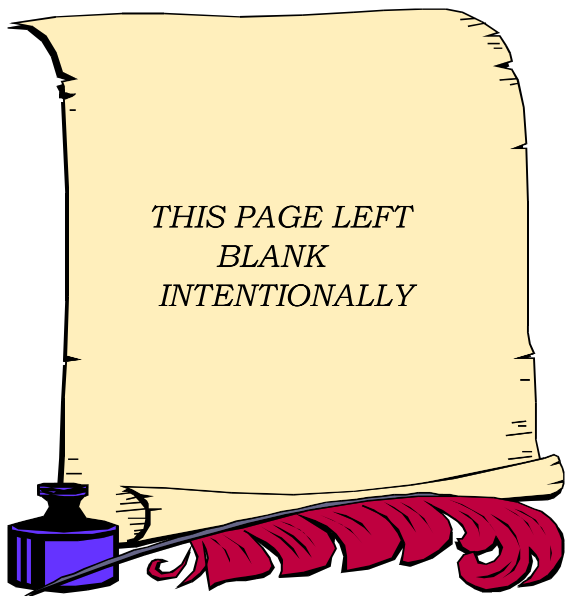
Significant Weaknesses

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.

Our audit disclosed significant deficiencies in the City's monitoring of sub-recipients regarding cost reasonableness to support HOME Program awards.

In addition, our audit identified significant deficiencies in controls related to complying with HUD's requirements for affordability periods and amounts, tenant eligibility, and low-income homeowner eligibility. We also found significant weaknesses in the City's monitoring of sub-recipients. These weaknesses are described in the Findings section of this report.

Table of Contents Print Report


THIS PAGE LEFT
BLANK
INTENTIONALLY

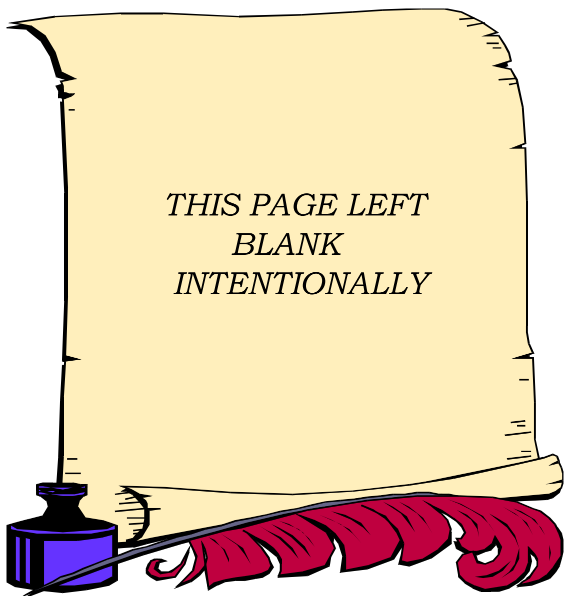
Schedule of Questioned Costs

	Type of Questioned Cost		
Recommendation Number	**Ineligible 1/**	**Unsupported 2/**	**Funds Put to Better Use 3/**
1 A		$989,929	

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

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented.


THIS PAGE LEFT
BLANK
INTENTIONALLY

Auditee Comments

City of Bridgeport, Connecticut
OFFICE OF PLANNING & ECONOMIC DEVELOPMENT
999 BROAD STREET
BRIDGEPORT, CONNECTICUT 06604
TELEPHONE: (203) 576-7221
FAX 332-5611

JOHN M. FABRIZI
Mayor

MICHAEL W. FREIMUTH
Director of
Planning and
Economic Development

April 25, 2003

Ms. Kristin Ekmalian
OIG Audit
Connecticut State Office
U.S. Department of Housing and Urban Development
One Corporate Center – 19th Floor
Hartford, Ct 06103

RE: Bridgeport HOME Audit

Dear Ms. Ekmalian:

The City of Bridgeport has responded in writing to the draft audit of the HOME program on three different occasions and includes the correspondence of August 8, 2002, March 13, 2003 and the email of April 5, 2003 as part of this submission by reference and as attached.

Generally, the projects audited by HUD were very early attempts at utilizing the then new HOME program through community housing development organizations (CHDOs). It is quite clear that mistakes were made by these organizations and in fact, one CHDO no longer even exists.

Nonetheless, the units were produced, meet local codes and HQS, and have been maintained. The target population has been served, the affordability restrictions are in place and it's the city's contention that the costs were reasonable for the units.

A review of the files and site inspections shows income eligibility (in all but one case) has been achieved and as noted in our April 5, 2003 submission, we do not believe that HUD fully accounted for all the land and soft costs that were included in these projects nor did HUD recognize the direct subsidies to homeowners in the way of mortgage instruments. These omissions distort some of the draft audit analysis and we ask that the comments regarding profitability in the audit be revisited by HUD OIG (Pages v & 10).

As the Participating Jurisdiction, the city recognizes that it is ultimately responsible for the administration/implementation by CHDOs and agrees that the identity of interest was a problem. The CHDOs structured the deals to minimize their risks and costs by maintaining private ownership through all or portion of the rehabilitation. This practice is no longer permitted.

The city also agrees that CHDO bidding was inconsistent. Today, all bids are developed with city staff and are advertised and procured through the City Purchasing Department to increase competition and fairness. This change is several years old.

City staff upgrades and a review of all files to ensure that deed restrictions/affordability guidelines are in place and that income affordability is ensured have been underway.

In specific response to your recommendations on page 15:

1A: Documentation is available to back up the April 5 submission showing reasonable costs and profits and we do not believe HUD is reasonable in disallowing these project expenditures.

1B: Procedures to govern bids specifications and advertising have been changed since the projects audited by your review team.

1C: The city understands that all funding sources including sale proceeds should be assessed in determining HOME awards. However, the City also notes that true cash proceeds are more critical in getting a project underway and that HUD OIG did not value the secured mortgage instruments in the deals nor distinguish between cash proceeds and sales proceeds.

1D: New HOME staff have been assigned the task of program affordability monitoring and to confirm that resale restrictions are in place.

1E: We are reviewing affordability and recapture language in all HOME projects.

1F: Documentation on homebuyers/tenants eligibility is available for projects.

1G: Monitoring and training is being increased.

We understand that the HUD Hartford Office will assess this audit and we look forward to working with them to make program improvements and resolving HUD's concerns.

Sincerely,

Michael Freimuth, Director
Planning and Economic Development

Attach: 8/8/02 submittal
3/13/03 submittal
4/5/03 email/chart

cc: P. Rosario
L. Gulyos

Table of Contents Print Report