
AUDIT REPORT



DANBURY HOUSING AUTHORITY
CAPITAL FUND PROGRAM
DANBURY, CONNECTICUT

2004-BO-1004

DECEMBER 5, 2003

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



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TO: Michael Liu, Assistant Secretary for Public and Indian Housing, P

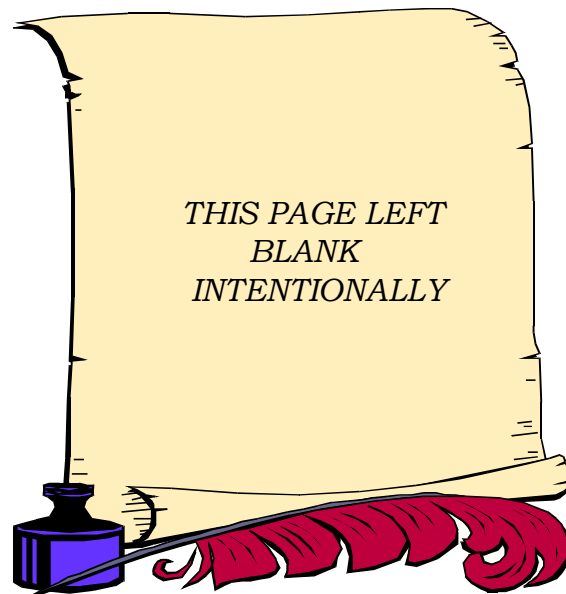
FROM: Barry L. Savill, Regional Inspector General, Office of Audit, 1AGA

SUBJECT: Danbury Housing Authority
Capital Fund Program
Danbury, Connecticut

We performed an audit of the Danbury Housing Authority's Capital Fund Program (CFP). Our report contains five findings with recommendations requiring action. Our review disclosed that the Danbury Housing Authority: (1) Defaulted on their \$11 Million General Obligation Bonds; (2) Lacked the Financial Viability to Obtain the \$11 Million General Obligation Bonds; (3) Performed Inadequate Management Oversight of Authority Property and Financial Records; (4) Incurred Ineligible, Unsupported and Unreasonable Costs; and (5) Had Ineffective Procurement Practices.

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.



Executive Summary

We have completed an audit of the Danbury, Connecticut Housing Authority's (Authority) Capital Fund Program (CFP). The primary purpose of our audit was to determine if the CFP was operating in an economical, effective, and efficient manner and in compliance with HUD regulations, applicable laws, and the Indenture of Trust between the Bank and the Authority.

We determined that the Authority's:

- \$11 Million Variable Rate General Obligation Bonds were declared to be in default by the Bank, making them immediately due and payable.
- Financial viability is threatened and it lacks the ability to pay debt and fees associated with the Bonds.
- Operations were not being managed effectively and efficiently. The Authority lacked adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones and maintenance costs. We identified potential annual cost savings (Funds Put to Better Use) of \$390,681.
- Operations incurred \$92,816 of ineligible and unsupported costs. We identified \$73,000 of ineligible salary bonus payments made to the Executive Director (ED) and his staff. In addition, we identified \$9,816 of personal expenses (ceramic tiles and a cellular phone) that the ED charged to the Authority and \$10,000 in unsupported costs paid to the ED.
- Procurement practices did not comply with HUD regulations and it's own procurement policy.

Default of \$11 Million in Bonds

The Authority did not operate its Capital Fund Program in an economical, effective, and efficient manner and in compliance with HUD regulations, applicable laws, and contractual agreements. As a result, the Authority is in default of its \$11 Million Variable Rate General Obligation Bonds, making them immediately due and payable. This condition was caused by \$2.3 million in improper Bond related transactions approved by the Authority's Executive Director (ED). Currently, the Authority does not have the resources to fulfill its obligations under the Bonds, including renovations of its High Ridge Housing Complex, without the cooperation of the Bank in restructuring the debt. This unfinished public housing project for 60 families has been vacant for over a year (See photograph on page. iv). The ED resigned on May 20, 2003, and all of the Authority's Board of Commissioners (the Board) members have resigned or been replaced by the City's Mayor.

Unfinished - High Ridge Public Housing Complex Danbury, CT



\$11 Million Bonds Not
Financially Viable

Even if the Authority had not defaulted on the \$11 Million Bonds, the Authority still risked financial difficulty in repaying the Bonds. The Authority's financial viability is threatened and it lacks the ability to pay debt and fees associated with the Bonds. This condition was caused by a serious cash flow problem resulting from poor planning and over-leveraging future CFP grants and Section 8 Program administrative fees. The OIG determined that it was not financially viable for the Authority to issue the \$11 Million Bonds. We performed a cash flow analysis that showed that the Authority would not have been able to repay debt service on the Bonds and properly maintain the physical condition of its federal properties. We estimated that the Authority would have an \$8,521,964 cash shortfall through 2027 related to the Bonds and CFP expenditures (See [Appendix B](#)). The Authority's serious financial condition could lead to its inability to provide safe, affordable and

decent housing and administer financial assistance for its low-income public housing recipients.

Audit Identified \$390,681 of Funds Put to Better Use

The audit determined that the Authority was not being managed effectively and efficiently. The Authority lacked adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones and maintenance costs. We identified potential annual cost savings (Funds Put to Better Use) of \$390,681.

Audit Identified \$92,816 of Ineligible and Unsupported Costs

Our audit disclosed \$92,816 of ineligible and unsupported costs. We identified \$73,000 of ineligible salary bonus payments made to the ED and his staff. Also, we identified \$9,816 of personal expenses (ceramic tiles and a cellular phone) that the ED charged to the Authority and \$10,000 in unsupported costs paid to the ED .

HUD Procurement Regulations and Authority's Own Policy Not Followed

The Authority's procurement practices did not comply with HUD regulations and its own procurement policy.

The deficiencies included:

- Architect and construction contracts awarded without competition.
- Labor standards omitted.
- Sole source contract awards not justified.
- Services paid for without a contract.
- Change orders not appropriate and not approved by the Board of Commissioners.
- Bid proposals and contract documents missing.

The Authority's management did not fulfill its responsibility to establish and implement effective internal controls over the procurement process. HUD had no assurance that the Authority's procurement process was fair and equitable, and resulted in a reasonable price for the product or services purchased .

Recommendations

The Authority's Management must take steps to recover approximately \$1.9 million of the \$2.3 million in improper Bond related transactions related to an improper contractor advance, ineligible loans, and unsupported costs as follows:

Description	Amount	Recom.
Advance to Construction Co.	\$790,000	1A
Unsupported Payment	50,000	1A
Loan to Developer	950,000	1C
Laurel Garden Kitchen Loan	31,693	1D
Unsupported Bond Consultant Fee	50,000	1E
Total	\$1,871,693	

The Authority needs to work with the Bank and the Contractor's Surety Company to negotiate a restructuring agreement for the Bonds and complete renovations of the High Ridge Garden project. Also, the Authority needs to develop a long-term cash flow analysis and a plan to show how its financial obligations and public housing modernization needs will be addressed.

The Authority should establish adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones and maintenance costs. The Authority should implement our detailed recommendations to achieve potential annual cost savings (Funds Put to Better Use) of \$390,681.

The Authority should recover the \$92,816 of ineligible and unsupported costs identified by the OIG audit unless adequate supporting documentation is provided.

The Authority needs to implement adequate procedures over the procurement process. The procedures should ensure that prior to payment: costs are reviewed; certified as eligible; determined reasonable; and supported in accordance with program requirements. In addition, the Authority needs to implement and maintain effective management and accounting controls over assets. The Authority should comply with HUD regulations and contractual agreements.

As a result of the significant findings disclosed above, HUD program officials should sanction the former ED from participating in HUD Programs, as appropriate.

Findings and
Recommendations
Discussed

We discussed the findings in this report with the responsible auditee officials, as well as HUD program officials, during the course of the audit. We held a closing interview with the Deputy Director and the Board Chairperson on May 24, 2003. The discussion draft audit

report was presented at an Exit Conference held on November 13, 2003. On November 18, 2003, we provided the responsible auditee officials a copy of the final draft audit report for formal comments. We received the auditee's written response, dated November 20, 2003. Appropriate revisions were made where deemed necessary. We included the comments in the Findings section of this report. The complete response is included in [Appendix C](#).

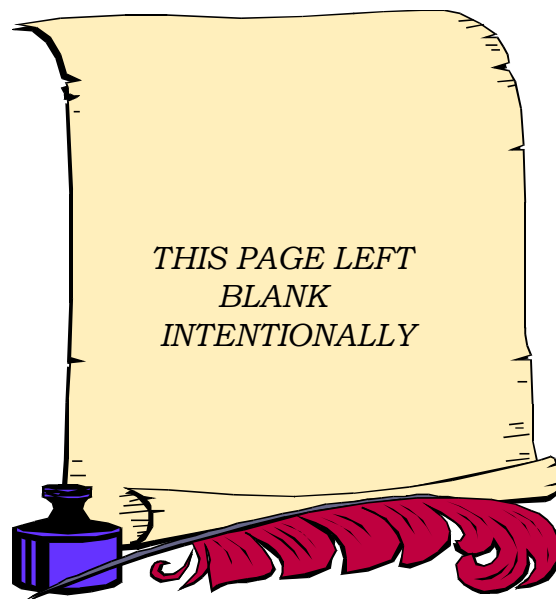


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Abbreviations

ACC	Annual Contributions Contract
AFS	Audited Financial Statements
CACD	Community Action Committee of Danbury
CFP	Capital Fund Program
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
CNA	Comprehensive Needs Assessment
DHC	Danbury Housing Corporation
ED	Executive Director
GAAP	Generally Accepted Accounting Principles
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
MOU	Memorandum of Understanding
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Authority
PIH	Office of Public and Indian Housing
REAC	Real Estate Assessment Center

Introduction

The Housing Authority of the City of Danbury, Connecticut (Authority) was created pursuant to Section 8-40 of the Connecticut General Statutes. The Authority has contracted with the Federal Government, acting through the Department of Housing and Urban Development (HUD), for financial assistance for low-income public housing pursuant to the United States Housing Act of 1937, as amended.

The Authority has also contracted with the State of Connecticut's Department of Economic and Community Development for financial assistance for elderly and moderate rental housing projects in the form of capital grants pursuant to Sections 8-114a and 8-70 of the Connecticut General Statutes. The Authority has also contracted with the State Department of Social Services for grants-in-aid for rental assistance funds.

The Authority owns approximately 418 units of Federal low-income housing. In addition, the Authority is a regional Section 8 Program Administrator for approximately 695 units. The Authority has approximately 62 employees and its main office is located at 2 Mill Ridge Road, Danbury, Connecticut. The daily operations are managed by the Executive Director (ED) who is appointed by a five member Board of Commissioners (Board). The Board serves at the discretion of the Mayor. Revenue for CY2001, the last period for which audit financial statements (AFS) are available, was \$11.2 million.

Since FY2000, HUD's Capital Fund Program (CFP) has annually provided funds to Public Housing Authority's (PHAs). The funds provide for capital and management activities, including modernization, correcting physical deficiencies, financing, and development of public housing. The CFP is awarded noncompetitively and is based on a formula that considers the existing and accrual (future) modernization needs of the PHA. The Quality Housing Work Responsibility Act (QHWRA) of 1998, Public Law 105-276, consolidated HUD's prior modernization initiatives – the Comprehensive Grant Program (CGP) and the Comprehensive Improvement Assistance Program (CIAP) into the Capital Fund Program (CFP). However, HUD has not published final CFP program rules to reflect the changes in QHWRA. Therefore, the regulations at 24 CFR 968 continue to apply to assistance made available through the CGP and CIAP. The provisions of 24 CFR 968, with respect to a PHA's annual statement/action plan, has been replaced by Public Housing Agency Plan rule at 24 CFR 903. Those regulations require that Capital Funds allocated to PHAs be fully obligated within two years and expended within four years of HUD approval of the grants.

A significant change to the Capital Fund provisions contained in QHWRA was the ability to fund financing activities to carry out modernization activities. As a result, the Authority requested and received approval from HUD Headquarters on December 15, 2000 to grant a security interest in future CFP grants to be awarded. The security interest was used as collateral to issue \$11 Million Variable Rate Demand General Obligation Bonds (Bonds) secured with a letter of credit from a bank. The Authority planned to use Bond proceeds to: (1) redesign and rehabilitate a total of seven low-income buildings at its High Ridge Gardens and Laurel Gardens housing complexes; (2) acquire an additional 26 scattered site public housing units; and (3) acquire ten condominium units to be used to house eligible Section 8 tenants. The Authority leveraged future CFP funds and Section 8 administrative fees as debt service towards repayment

of the Bonds. The issuance of the Bonds had a major impact on the Authority's financial condition and its ability to perform necessary renovations.

Audit Objectives

Our overall audit objective was to determine if the Authority was operating in an efficient and effective manner and in compliance with HUD regulations, applicable laws, and contractual requirements. Specific audit objectives were to determine whether the Authority was:

- Using the proceeds from its \$11 million Bonds in an economical and efficient manner and in compliance with its contractual obligations.
- Using its resources and managing its programs and operations efficiently, effectively, and economically.

Complying with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD's Capital Fund Program regulations, and other applicable directives.

Audit Scope and Methodology

To accomplish the audit objectives, we:

- Reviewed Federal requirements including the Code of Federal Regulations; HUD Handbooks; and Public and Indian Housing Notices and Directives. In addition, we reviewed the Authority's organizational and administrative structure, administrative plans, and personnel policies, and recorded minutes of the Board of Commissioners meetings.
- Interviewed those individuals or groups including: Underwriters, Authority's Attorneys, Bond Counsel, Condominium Project Developer, and Bank officials, to determine their roles and responsibilities regarding the \$11 million Bonds.
- Interviewed Massachusetts and Connecticut State Office of Public Housing personnel to obtain information relating to the Authority's operations and management controls.
- Interviewed the Authority's Executive Director to determine his role and responsibilities regarding the \$11 million Bonds.
- Interviewed the Authority's Modernization and Development Coordinator and the Director of Finance

to determine how the Authority accounted for Bond proceeds.

- Analyzed the cash flow of the Authority to determine if revenues would be sufficient to repay debt service on the Bonds over a 28-year period.
- Reviewed Independent Public Accountant (IPA) audit reports, as well as monitoring reviews conducted by the HUD Field Office, to determine if local HUD officials were aware of the \$11 million Bond transaction.
- Reviewed 100 percent of the Authority's Contractors/Architects' contracts awarded under the Bonds to determine if all costs were supported and accounted for properly.
- Examined the Authority's procedures and supporting documentation for the 12 CFP related contracts awarded totaling \$11,728,444 to determine if the Authority adhered to HUD's procurement procedures and its own policy.
- Reviewed the Authority's gas purchases and motor vehicle maintenance and repair costs for the period January 1, 2000 to March 31, 2003 to determine if the gas purchases of \$68,018 and maintenance and repair costs of \$97,880 were reasonable and supported.
- Reviewed the Authority's motor vehicle usage to determine if the Authority adhered to its procedures and if the vehicles were used in an effective and efficient manner.
- Reviewed cell phone usage of the Authority for the period February 2001 through April 2003 to determine if the charges of \$49,343 were reasonable and supported.
- Reviewed Credit Card charges of the Authority for the period January 2000 through March 2003 to determine if any of the purchases were for personal use and if any inappropriate charges were paid back to the Authority.
- Reviewed salary bonus payments related to the \$11 million Bonds to determine who received these bonuses and whether they were eligible and reasonable expenditures.
- We selected transactions for review based on risk factors. We obtained and reviewed the supporting

source documents. Our audit results only apply to the items selected. The audit was conducted between February 2003 and May 2003, and covered the period October 1999 through March 2003. When appropriate, the audit was extended to include other periods.

- We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS).
- We utilized the criteria contained in the following:
 - Code of Federal Regulations (CFR).
 - HUD Handbooks.
 - HUD Housing Notices and Directives.
 - Annual Contribution Contracts (ACC). Agreements between HUD and the Authority.
 - Indenture of Trust (Trust) between the Authority and Bonds' trustee (Bank).

Housing Authority Defaults on \$11 Million General Obligation Bonds

The Housing Authority of the City of Danbury (Authority) is in default of the \$11 Million Variable Rate Demand General Obligation Bonds (Bonds) under the Indenture of Trust (Trust), dated December 1, 2000, between the Authority and the Bank (Trustee). The Trustee, in a default letter, dated May 14, 2003, declared an acceleration of payment of principal on the Bonds making them immediately due and payable. This condition was caused by \$2.3 million in improper Bond related transactions approved by the Authority's Executive Director (ED). In addition, the Authority's Board of Commissioners (Board) lacked adequate management controls and oversight over Bond transactions. As a result, it is doubtful that the Authority has the resources to fulfill its obligations under the Bond, including completion of renovations at the High Ridge Gardens housing complex, without the cooperation of the Bank in restructuring the debt. This unfinished public housing project for 60 families has been vacant for over a year. The ED submitted a letter of resignation, dated May 20, 2003, accepting full responsibility for the default and all Authority Board members have resigned or been removed by the City's Mayor.

\$2.3 Million in Improper Bond Transactions

The audit disclosed \$2.3 million in improper Bond transactions and related deficiencies as follows:

Description	Amount	Ref.
Advance to Construction Co.	\$ 1,000,000	(1)
Unsupported Payment	50,000	(2)
Loan for Condominium Complex	950,000	(3)
Laurel Garden Kitchen Loan	63,545	(4)
Laurel Garden Renovations – Phase 2	182,697	(5)
Unsupported Bond Consultant Fee	50,000	(6)
Acquisition of 22 Scattered Sites	N/A	(7)
Bond Transactions Not Recorded	N/A	(8)
Total	\$ 2,296,242	

(1) The ED improperly used Bond proceeds to advance \$1 million to a Construction Company (Contractor) for work not performed and materials not delivered. Subsequently, the Contractor repaid \$210,000 of the \$1 million advance to the Authority. However, the Authority did not return the funds to the Trustee for redeposit into the Bond Construction Fund Account.

(2) The Authority made a payment to the same Contractor for \$50,000 that lacked adequate supporting documentation.

(3) The ED made an improper loan of \$950,000 to a Real Estate Developer (Developer) for the purchase of land that was in violation of the Trust.

(4) The Authority inappropriately used Bond proceeds to pay for work costing \$63,545 for kitchen renovations at its Laurel Gardens housing complex. Subsequently, \$31,852 was repaid to the Authority. However, the Authority did not return the funds to the Trustee for redeposit into the Bond Construction Fund Account.

(5) The Authority inappropriately used Bond proceeds to pay for additional work costing \$182,697 at the Laurel Gardens (Phase II) community center.

(6) Insufficient documentation was provided to justify a \$50,000 consultant fee paid to the Developer.

(7) The Authority failed to execute an Annual Contribution Contract (ACC) or amended ACC and develop a proposal in acquiring 22 scattered site properties.

(8) A lack of accountability existed over Bond transactions. Specifically, the Authority did not record entries for Bond transactions nor reconcile accounts routinely during the year.

These issues are further explained below:

\$1 Million Advance to Contractor

On June 1, 2002, the ED used Bond proceeds to advance \$1 million to a Contractor for materials never delivered and work never performed at the High Ridge Gardens housing complex. The Contractor repaid \$210,000, owing a balance of \$790,000 (\$1,000,000 - \$210,000). The ED admitted advancing the money because the Contractor, hired for a \$5 million redevelopment of High Ridge Gardens, was incurring cash flow problems and unspecified problems with its bank. The ED stated he advanced the funds to allow completion of renovations in a timely manner. The ED did not consult with the Authority's Bond counsel before making this advance payment.

Contractor Defaults

On October 2, 2002, the Contractor notified the Surety (Performance Bond) Company that it was unable to complete work on High Ridge Gardens and pay its

obligations. Therefore, in view of the Contractor's financial situation, the Contractor voluntarily defaulted on its contract, and irrevocably relinquished all rights, title, and interest to all contract funds, balances, claims, and retainages. The High Ridge development is now at a standstill with no immediate financing available to complete these units, which have been off-line for over a year.

Improper Construction Fund Payments

These conditions existed because of improper disbursements from the Bond Construction Fund Account. Section 4.3(c) of the Trust stated that each payment from the Bond proceeds must be requested pursuant to a Requisition. To initiate the payments from the Bond Account, the Authority's Modernization Coordinator prepared a Requisition package, including an Application and Certificate for Payment, and forwarded it to the Authority's Finance Director. The Application and Certificate for Payment included the Contractor's signed application as well as the architect's certification concurring with the requested amount. The Finance Director would then complete a request for payment form (Requisition) to be signed by the ED. The signed Requisition generated a disbursement from the Bond Construction Fund Account maintained by the Bank (Trustee). Under Section (b) of the Requisition, the ED acknowledged "this requisition is for Project Costs of the Project which have not been of a previous or contemporaneous Requisition. It is for work actually performed or material, equipment or other property actually supplied in connection with the Project." The Finance Director would phone the Trust Officer at the Bank to initiate an electronic transfer and fax the requisition and supporting documentation. The Trust Officer at the Bank was responsible for reviewing the documentation and executing the wire transfer paying the vendor. The Finance Director followed-up by mailing the original Requisition, and supporting documentation (such as the Application and Certificate for Payment containing the Contractor's application and the architect's certification) to the Trustee.

The Authority's representation and certification that the \$1 million to the Contractor was for work already performed and material already supplied was inaccurate. Also, the payments went undetected because the Board of Commissioners (Board) lacked effective oversight over the Bonds by not establishing management controls over the

review and approval of disbursements. The result is that the High Ridge housing complex renovations are at a standstill and the Project is short \$790,000 in funds (\$1,000,000 - \$210,000).

Unsupported Contractor Payment

An unsupported payment was made to the same Contractor for High Ridge Gardens for \$50,000.

The Contractor submitted an unsupported invoice for \$50,000 for interior demolition on Building C of High Ridge Gardens that was paid as part of Bonding Requisition Package # 15. The ED approved the Requisition on March 22, 2002.

Also, the Board lacked effective oversight over the Bonds by not establishing management controls over the review and approval of disbursements. In addition to causing a default of the Trust, these actions result in less funds being available to pay for authorized Project costs.

\$950,000 Loan for Acquisition of Land

The Authority improperly loaned \$950,000 in Bond funds originally earmarked for the purchase of ten condominium units at a proposed condominium development. The ED loaned \$950,000 to a Real Estate Developer (Developer) to purchase the land for the condominium complex. In addition, the ED forfeited the Authority's primary lien status on this property when he agreed to make the loan to the Developer subordinate to any construction loan. Subsequently, the Developer obtained a construction loan on the property for \$11 million. The ED did not obtain an opinion from legal counsel regarding this loan that ultimately caused the bank to declare the Bonds in default.

On August 22, 2000, the Authority entered into a Memorandum of Understanding Agreement with a Nonprofit Organization (Nonprofit) that advocates for the mentally challenged and a Real Estate Developer (Developer) with experience in building group homes for developmentally delayed individuals. The goal was to produce a cooperative housing development for the benefit of constituents of the Nonprofit. The Authority was to donate approximately five acres of excess land adjacent to one of its projects to develop a 30-unit condominium housing development. The Developer was responsible for all development activities including financing, zoning, design, and construction of the condominiums. The Authority's Bond proceeds were to be

used to purchase ten of the condominium units, at a discounted price, from the developer upon their completion and availability for occupancy. Subsequently, the five-acre parcel of land was determined unsuitable for the development, and a search for a new location was undertaken.

On June 7, 2001, the Developer entered into a Purchase and Sale Agreement to buy a 26-acre lot for \$950,000 by April 3, 2002. This location would allow for the development of an even larger 70-unit condominium complex. However, the developer was unable to secure financing to purchase the land in a timely manner. The Purchase and Sales Agreement contained penalties for each month the closing was delayed. As a result, the ED offered to loan \$950,000 of the Bond proceeds to the Developer to purchase the 26-acre lot.

As collateral for the \$950,000 loan, the Authority and the Developer entered into a Purchase Agreement on April 17, 2002. The agreement provided for the Developer to deliver marketable title for ten condominium units to the Authority upon completion of construction and issuance of occupancy certificates by the City of Danbury. The total purchase price for the ten condominiums was \$1.2 million with the \$950,000 loaned to Developer up front and the \$250,000 balance payable at the rate of \$25,000 upon closing on each of the ten condominiums.

Subordination of Loan

The Authority's Board should have been aware that the ED planned to loan \$950,000 to the Developer to purchase land for the Condominium Complex, even though it clearly violated the terms of a Memorandum of Understanding (MOU), which the Board had unanimously approved on August 3, 2000. On April 4, 2002, the ED informed the Board of complications with the development. The ED's Report to the Commissioners stated "we need to use the \$1.2 million that is to be used for the purchase of these units up front to buy land for the Developer." Subsequently, the Developer obtained an \$11 million loan for construction of the project. The Purchase Agreement made the \$950,000 loan subordinate to the Developer's \$11 million construction loan. These actions breached the terms of the Indenture of Trust between the Authority and the Bank governing the use of Bond proceeds. In our opinion, had the Board members

HUD Program Integrity
Bulletin

exercised effective oversight, they would have known that these actions were in violation of the Trust.

HUD's Program Integrity Bulletin, dated November 1990, states that the Board of Commissioners have ultimate responsibility for PHA operations, including:

- Selecting qualified Executive Directors.
- Approving policies and procedures for internal and external monitoring controls.
- Approving policies and procedures to detect and prevent program fraud, waste, mismanagement and abuse.
- Ensuring that the PHA is acting legally and with integrity in its daily operations.

By law, the Board is required to make policy decisions to determine how programs are administered and to obtain funds from various sources and protect funds needed to keep the PHA operating. The Board is responsible for the actions and decisions made by the ED and other PHA staff. Therefore, the Board is also accountable for the \$950,000 loan.

Condominium Complex
Behind Schedule

Our May 28, 2003 site inspection of the project indicated that significant progress had not been made since our first site visit on March 11, 2003. The Developer initially stated that the first building would be occupied by October 1, 2003; however, the Developer now anticipates that the first units will not be ready for occupancy until December 2003. Thus far, only excavation work has been performed, which included the removal of ledge and grading the property. The Developer's President informed us that delays occurred in obtaining the building permits for the project. The delays pose additional risk to the Authority's investment and defer occupancy of the units for qualified families.

Condominium Complex Behind Schedule Danbury, CT



Section 4.3(b) of the Trust stated that the Bond proceeds were to pay for Project costs. The term Project was defined in Appendix A of the Trust as (i) renovation of Laurel Gardens, (ii) renovation of High Ridge Gardens, (iii) purchase of 26 scattered units, and (iv) purchase of ten condominiums from a Real Estate Developer. The definition did not authorize the Authority to lend or advance money to any person or entity.

In addition, the Trust prohibited the Authority from creating a lien or charge on any Authority Revenues. The Trust defined Authority Revenues as all rents, fees, charges and other income and receipts. When the Authority and the Developer executed the Purchase Agreement on the Condominium Complex, the agreement encumbered Authority Revenues. Even though the Authority's loan to the Developer was itself a default under the Trust, the Authority's subsequent subordination of the Purchase Agreement to the \$11 million

construction loan created a lien and charge on the Authority's Revenues.

In addition to creating a default of the Bonds, the \$950,000 loaned by the Authority is at risk. What was supposed to be a purchase of completed units ready for occupancy is now subject to construction risks, and the Authority's loan is subordinate to the Developer's construction loan.

Improper Payments of \$63,545 and \$182,697

The Authority submitted Requisitions for payments that were not for Project costs as defined in the Trust. The Authority improperly requisitioned Bond proceeds to pay for kitchen renovations costing \$63,545 for the Laurel Gardens Community Center under Phase II Construction. According to the ED, the Authority had an oral agreement with the Community Action Committee of Danbury (CACD) to modify the kitchen at the Community Center at a cost of \$63,545. The oral agreement provided that CACD would reimburse the Authority for the \$63,545 amount. The Authority was reimbursed \$31,852 of the \$63,545 used for kitchen renovations but did not return the money to the Trustee for redeposit into the Bond Construction Fund Account. We contacted CACD representatives regarding the \$31,693 balance owed (\$63,545 - \$31,852). CACD said the ED told them to consider it an in-house donation.

The Authority also requisitioned Bond proceeds to pay costs of \$182,697 for additional work at the Laurel Garden's Community Center under Phase II. In accordance with the Trust, Bond proceeds were to be only used for Project costs that included the renovation of 32 units in Buildings A and B under Phase III of construction at Laurel Gardens. Neither the ED nor the Modernization Coordinator adequately explained why Bond proceeds were utilized for the Community Center.

Board Lacked Effective Oversight Over Bonds

Also, the Board lacked effective oversight over the Bonds by not establishing management controls over the review and approval of disbursements. In addition to causing a default of the Trust, these actions result in less funds being available to pay for authorized Project costs.

Consultant Fee of \$50,000 Paid to Real Estate Developer

Insufficient documentation was provided to justify a \$50,000 payment made in connection with the issuance of the Bonds. The Authority paid a Real Estate Developer (Developer) \$50,000 for advisory services without a contract. The invoice

for the \$50,000 did not explain in detail what specific services the Developer provided.

The ED stated that the \$50,000 payment to the Developer represented a finder's fee because the Developer introduced the ED to the Bond Underwriters and attended several meetings between the ED and local banks. There was no prior verbal or written agreement providing that the Developer was to receive any form of compensation for these types of services. In fact, the Developer already had a vested interest in the Bonds related to the Condominium Complex. Based on these facts, we consider the \$50,000 payment to be unsupported and unreasonable.

Part A, Section 4 of the ACC requires the Authority to operate in a manner, which promotes serviceability, efficiency, economy, and stability. Part A, Section 2 of the ACC defines operating expenditures as those necessary for the operation of projects.

The result of this payment is that the \$50,000 is not available for authorized Project costs.

No HUD Approval for 22
Scattered Sites

Although not a cause for default of the Bonds, the Authority's unauthorized acquisition and maintenance of 22 scattered sites with federal funds constitutes a default under section 17(B) of the ACC. The Authority's acquisition of 22 scattered site properties lacked proper planning. The Authority did not submit a Development by Acquisition Proposal for the scattered site units as required by HUD. Therefore, the units are not covered by either an ACC or amended ACC. Until an adequate development proposal is submitted, HUD cannot approve the acquisitions.

The Authority used Bond proceeds to acquire these 22 scattered site units from the Authority's non-profit affiliate, HACD Corporation, at a cost of \$1,173,174. The units were acquired to replace low-income units lost as a result of the redesign and redevelopment at the Authority's Laurel Gardens public housing complex. We note that when these units were owned by HACD, Section 8 tenants primarily occupied them.

No Physical Needs
Assessments Performed

In addition, the Authority did not conduct a Physical Needs Assessment on the sites before acquisition. Therefore, they did not have an estimated cost to modernize and maintain

these units. Also, no appraisals and environmental assessments were performed for the 22 sites. The ED did not believe it was necessary to obtain a new or amended ACC because he intended on using the existing ACC with the 418 approved public housing units. The scattered site units were considered replacements for those units demolished at the Laurel Gardens housing complex.

HUD regulations contained in 24 CFR 941.302 stipulate that PHAs developing public housing shall execute an ACC or ACC amendment covering the entire amount of reserved development or modernization funds it proposes to use. Regulation 24 CFR 941.305 establishes that units shall be developed only in accordance with an approved proposal. Regulation 24 CFR 941.304 dictates that a full proposal for an acquisition of sites should include: a) Project description; b) Description of development method (for example, turnkey acquisition); c) Project costs; d) Appraisal of the property by an independent, state-certified appraiser; and e) an Environmental assessment.

Authority in Default of ACC

The effect of these actions is that the Authority is in default under section 17(B) of the ACC. Therefore, the units are not covered by either an ACC or amended ACC. In addition, there may be significant costs associated with bringing the units up to standards as well as maintaining them. These actions put further strain on the Authority's modernization funds. Also, the purchases essentially substituted public housing for existing Section 8 housing.

Lack of Accountability Over Bond Transactions

A lack of accountability existed over Bond transactions. Specifically, the Authority did not record entries for Bond transactions nor reconcile accounts routinely during the year. Instead, the Authority only prepared journal entries at year-end for Bond transactions that should have been recorded during the year. The Finance Director admitted that the Authority's lack of accountability over its Bond transactions created problems. For example, the \$210,000 amount repaid against the \$1 million advance was deposited into the Authority's Section 8 Voucher Program Account because the Finance Director was unsure where or how to record the transaction. An account receivable should have been set up on the Authority's books for the amount still owed. Repayments should be offset against the receivable. The \$210,000 should have been returned to the Trustee for redeposit into the Bond Construction Fund Account.

In another instance, the Authority deposited a payment of \$31,852 received from the Community Action Committee of Danbury (CACD) into the wrong account. The \$31,852 amount was a reimbursement for the \$63,544 the Authority paid on behalf of CACD to modify the kitchen at the Laurel Garden's Community Center. As previously indicated, there was no written contract between the Authority and CACD. The payment of \$31,852 was improperly recorded in a state funded account instead of being deposited in the Bond Construction Fund Account. The Authority expects CACD to repay the balance owed of \$31,693 (\$63,545 - \$31,852), even though CACD indicated that the ED told them to consider it an in-house donation. The Authority will have difficulty enforcing payment because there is no written contract and no receivable recorded on the books .

The Authority's Finance Director plans to take corrective action ensuring that proper books of account are established for the Bonds and that the Authority begins recording Bond transactions in the proper accounts .

The Authority did not comply with its Indenture of Trust Agreement, Section 5.6 titled "Accounts and Audits". The section stipulates that: "The Authority shall keep proper books of records and accounts (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Authority's facilities and this indenture, which books and accounts, at reasonable hours and subject to the reasonable rules and regulations of the Authority, shall be subject to the inspection of the Trustee or of any Owner of a Bond or of the Owner's representative duly authorized in writing".

The Authority and the Board's failure to implement and maintain effective accounting and management controls over the Bonds contributed to the default of the Bonds. In addition, these actions hinder recovery of improper payments from the Bond Fund Construction Account.

Auditee Comments

The Authority's response ([Appendix C](#)) concurs with the OIG findings and has already implemented actions to address several of the cited deficiencies. The Authority has committed to work diligently and closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

OIG Evaluation of Auditee Comments

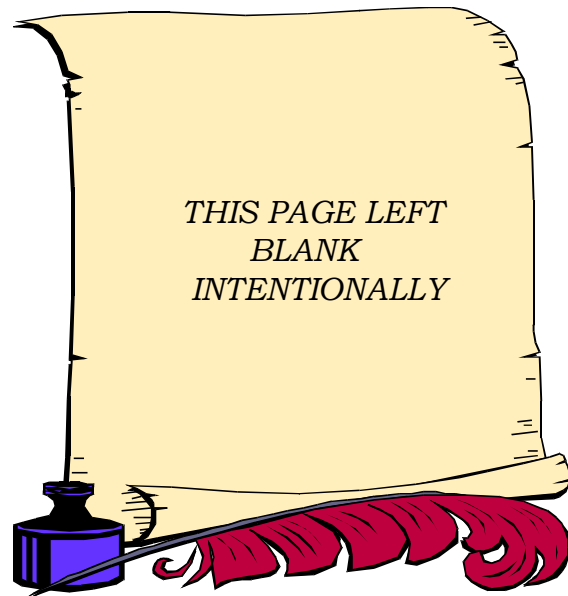
We consider the Authority's comments to be responsive to our findings and recommendations. The Authority should continue to work closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

Recommendations

We recommend that you require the Authority to:

- 1A. Ensure that all steps are taken to recover the \$790,000 balance (\$1,000,000 - \$210,000) of the \$1 million advanced to the Contractor, as well as the unsupported payment of \$50,000, for a total recovery of \$840,000.
- 1B. Assist the Authority in working with Bank (Line of Credit Guarantor and Trustee) and the Contractor's Surety (Performance Bond) in negotiating a restructuring agreement for the Bonds and completion of the High Ridge Garden project, in whole or in part.
- 1C. Require the Authority to recover the ineligible \$950,000 loan to the Developer or ensure that the Authority obtains title to the ten completed condominium units.
- 1D. Ensure that all steps are taken to recover the \$31,693 balance owed (\$63,545 - \$31,852) by CACD for the kitchen renovations at Laurel Gardens.

- 1E. Require the Authority to obtain detailed support for the \$50,000 payment to the Consultant to enable a determination of reasonableness. Recover any unreasonable costs.
- 1F. Require the Authority to prepare and submit a development proposal to HUD for the 22 scattered site units that were acquired, but are not covered under the ACC.
- 1G. Sanction the former ED from participation in HUD Programs, as appropriate.
- 1H. Work with the Authority to obtain qualified and dedicated leadership at the Executive Director, Finance Department, and Board of Commissioner levels, as necessary. Also, consider providing training for these individuals.



\$11 Million General Obligation Bonds Were Not Financially Viable

Had the Authority not defaulted on the \$11 Million Bonds (Finding 1), the Authority still risked financial difficulty in repaying the Bonds. The Authority's financial viability is threatened and it lacks the ability to pay debt and fees associated with the Bonds. This condition was caused by a serious cash flow problem resulting from the Executive Director's (ED's) poor planning and operating elements related to its \$11 million Bonds. Specifically, the ED:

- Leveraged an excessive amount (94%) of future Capital Fund Program Funds to repay debt service and fees for the life of the Bond.
- Failed to include Authority staff, the Board of Commissioners or the local HUD field office staff in the decision making and planning processes.
- Failed to provide for sufficient modernization funds required for long-term needs of the Authority.
- Failed to ensure an adequate surplus from Section 8 Administrative Fees to repay debt service and fees on the Bonds.
- Overrated the need for a complete rehabilitation of the High Ridge Gardens Housing Complex.

Cash Flow Analysis

We performed a Cash Flow Analysis (See [Appendix B](#)) that showed that the Authority would not have been able to repay debt service on the Bond and properly maintain the physical condition of its federal properties. We estimated that the Authority would have an \$8,521,964 cash flow shortfall through 2027 related to the Bonds and the Capital Fund Program. Without taking the necessary steps to significantly increase cash flow (see Finding 3) the Authority's financial future is in jeopardy. The Authority's serious financial condition could lead to its inability to provide safe, affordable and decent housing and administer financial assistance for low-income public housing recipients.

Criteria

The Authority's job description for the position of Executive Director dictates that the Executive Director must supervise the Housing Authority's financial operations to assure proper financial planning, accounting, and auditing. Also, the Authority's FY2002 Annual Plan submitted to and approved by HUD included the following goal and objective:

Goal #1: "To manage the Housing Authority of the City of Danbury programs in an efficient and effective manner..."

Objective: The Housing Authority of the City of Danbury shall continue to excel in providing and training, a motivating work environment with a capable and efficient team of employees to operate a customer friendly **and fiscally prudent** leader in the public housing industry.

Background

The Authority received approval from HUD Headquarters on December 15, 2000 to pledge future Capital Fund grants and Section 8 Program administrative fees to pay debt service on \$11,000,000 in Bonds, secured by a letter of credit from the Bank. The Authority's goal was to redesign and rehabilitate a total of seven low-income buildings at its High Ridge Gardens and Laurel Gardens Projects, acquire 26 scattered site public housing units, and acquire ten condominium units.

A number of factors caused us to question the feasibility of the Bonds. Foremost was the Authority's ability to pay debt service and fees over a 28-year period. We estimated debt service and fees on the Bonds totaling \$21,984,583 million over the 28-year life of the Bonds, an average of \$785,164 per year ($\$21,984,583/28\text{Yrs.} = \$785,164/\text{Yr.}$). This annual amount left minimal unobligated modernization funds for emergent needs through 2027.

The Authority's Bond proposal stipulated that the debt attributed to the renovations at the low-income buildings and the acquisition of 26 sites is to be financed with Capital Funds. The Bonds required the Authority to pledge Capital Funds of \$734,832 annually for the life of the Bonds as well as \$200,000 annually in excess Section 8 Program administrative fees (a total of \$934,832 annually). The \$734,832 amount represented approximately 94% of the \$784,832 annual Capital Funds expected to be received. With 94% of the Capital Funds pledged to amortize the

Bond, the Authority was left with minimal (\$50,000/Yr.) of unobligated funds to address all physical needs. In addition, leveraging such a large percentage of Capital Funds was risky since there was no certainty that any housing authorities would continue to receive the same levels of funding in future years. Also, leveraging Section 8 administrative fees was not prudent because the Authority's Section 8 Program was in fact operating at a deficit. Finally, since the interest rate on the Bonds was variable with no cap, there was significant risk of increased costs due to interest rate fluctuations.

The ED, and other parties, not directly associated with the Authority, handled the details regarding the Bond Proposal. The Board of Commissioners, the Authority's key staff, and the local HUD field office did not play key roles in the decision making process.

No Assessments of Future
Modernization Needs

The Authority did not perform any written assessments on the physical needs or estimates of long-term modernization costs for the existing housing stock. By failing to consider physical needs, it is questionable how long-term needs could be adequately addressed since 94% of the annual Capital Funds were pledged to amortize the Bond. In fact, the Authority did not include details on the Bond proposal in its Annual Plan submissions to HUD. The ED did not explain why Bond financing was not addressed in the Annual Plans; however, the ED accepted responsibility for the oversight.

The ED stated that a Cash Flow Analysis performed by the Bond Underwriters determined that Bond financing was viable and the Authority would be able to sustain the debt on an \$11 million Bond. We requested supporting documentation regarding the Underwriter's Cash Flow Analysis; however, the ED stated that he did not maintain any records supporting the analysis specific to the Authority. The only documentation provided was a generic marketing presentation prepared by the Bond Underwriters. Using similar methodology and assumptions contained in the marketing presentation we calculated that the Authority would operate at a significant deficit beginning in fiscal year 2004 and throughout the life of the Bond.

We determined through a review of REAC inspections, Needs Assessments, Five-Year Action Plans, and by our inspections of properties, as well as our consultation with the Authority's Modernization Coordinator (Coordinator), that the Authority would require estimated costs of \$470,840 annually to modernize and maintain the federal developments to include scattered sites over the life of the Bonds. However, the Authority's Bond proposal left only \$50,000 annually for modernization needs.

Section 8 Program Funds Pledged

In addition, the Authority pledged \$200,000 in Section 8 administrative fees annually. We determined that the Danbury Housing Authority actually sustained significant losses in its Section 8 Program totaling \$743,185 over the three-year period of CY2000 – 2002. Therefore, instead of generating the required \$600,000 (\$200,000/Yr. X 3) surplus to pay debt service on the Bonds during this period, the Authority actually created a \$1,343,185 debt service shortfall (\$600,000 + \$743,185). Therefore, the Authority will have to take immediate action to reduce its Section 8 Reserve deficit. The best solution would be to increase lease-up rates and reduce expenses of the Section 8 program.

Use of Bonds for High Ridge Gardens Not Economical

Based on our analysis and the conditions disclosed above we believe that the use of Bond proceeds for renovations of High Ridge Gardens was not an economic and efficient use of funds considering the Bond's high debt service and fees, and the potential loss of significant rental income during the project's complete renovation. The estimated rental income lost at High Ridge Gardens before the project would be ready for its earliest possible occupancy in June 2004 is \$570,430.

The High Ridge Gardens project was intended to be completed in a single-phase approach - all five buildings were to be re-developed concurrently. The advantage to a single-phase approach was to minimize design and other associated costs. The Coordinator estimated that the Authority saved approximately \$825,000 in design fees and other associated costs by utilizing the single-phase approach compared to the multiple-phase approach (completing work in stages). However, those savings pale in comparison to the high interest and service fees of the Bonds.

In addition, there is no substantial evidence indicating that a complete rehabilitation of High Ridge Gardens was warranted. Although High Ridge Gardens was an older housing complex requiring attention, it was not necessary nor was it economically feasible for a complete renovation of the five buildings. In the opinion of the Authority's Modernization Coordinator, High Ridge Gardens' physical condition did not warrant complete renovation of the complex. The Coordinator further stated that it would have been more economically feasible for the Authority to utilize Capital Funds and renovate High Ridge Gardens in stages.

REAC Inspections Do
Not Support Need For
Complete Renovation

HUD's Real Estate Assessment Center (REAC) Inspection Reports, Five-Year Action Plans, and Needs Assessments did not indicate that High Ridge Gardens required a complete renovation. The REAC Inspection Reports categorize defects as either Capital items or Ordinary items and described the level of severity. Capital items are repairs that require large cash outlays such as new roofs and new appliances. Ordinary items are repairs that require smaller cash outlays such as light fixtures, fire extinguishers, and smoke detectors.

The defects noted on the July 11, 2001 REAC Inspection Report were neither severe nor costly to repair. Even though High Ridge received a final score of only 60 for this inspection, the report did not contain any severe capital deficiencies. The majority of defects that caused a significant reduction in the overall score were Ordinary items. For example, there were six defects involving peeling paint and nine defects on damaged/missing screens/windows.

REAC inspections performed January 18, 2002 did not indicate that High Ridge Gardens needed costly repairs. In fact, the more recent inspections resulted in an increased passing score of 76. The report disclosed mostly minor defects, such as peeling paint, mold and/or mildew observed and damaged/missing screens/windows. Furthermore, the inspection report noted there were only three systemic deficiencies classified as capital items. The three systemic deficiencies pertained to damage to lavatory sinks, that the inspection report documented as the least severe type of capital deficiency.

Finding 2

Authority Needs Financial Plan

Before any new loan arrangement or agreement is approved, an overall financial plan needs to be developed to address the Authority's financial concerns. The Authority needs to show how its financial obligations will be addressed. In addition, HUD needs to work with the Authority to determine the need and, if necessary, the availability of additional funding. Without a financial plan in place, the long-term viability of the Authority may be in jeopardy.

Auditee Comments

The Authority's response ([Appendix C](#)) concurs with the OIG findings. The Authority has committed to work diligently and closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

OIG Evaluation of Auditee Comments

We consider the Authority's comments to be responsive to our findings and recommendations. The Authority should continue to work closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

Recommendations

We recommend that you require the Authority to:

- 2A. Instruct the Authority to submit a comprehensive plan, which addresses the cash flow problem and any other financial concerns of the Authority.
- 2B. Provide oversight that considers the feasibility of all aspects of the Authority's plan and develop a long-term management strategy, which best addresses the Authority's financial, physical and occupancy problems and protects HUD's interests.

Inadequate Management Oversight of Authority Property and Financial Records

The Housing Authority of the City of Danbury (Authority) was not being managed effectively and efficiently. In addition, the Authority lacked adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones, and credit cards. The following deficiencies are evidence of a failure to fulfill the responsibilities required of Housing Authority management:

- Excessive number of Authority vehicles.
- Inadequate inventory controls and records for Authority vehicles.
- Excessive number of cellular telephones for Authority staff.
- Excessive Maintenance Staff relative to the number of housing units.
- Bank Statements not reconciled in a timely fashion.
- Invoices not reviewed and approved before payment.
- Annual audited financial statements (AFS) for 2001 did not reflect the Authority's true financial position for Section 8 income and expenses.
- Required unaudited financial statements not submitted to HUD.
- Financial records in disorder and incomplete.
- Authority acquired properties for public housing without HUD approval.

Due to a lack of sufficient controls over these items, HUD has little assurance that the appropriate laws, regulations, and policies are being followed. In addition, failure to manage the Authority in an economical and efficient manner has resulted in lost opportunities for cost savings. Based on our review, we calculated potential annual costs savings (Funds Put to Better Use) of \$390,681 as follows:

Item	Cost Savings
Vehicle Maintenance	\$16,574
Gasoline Purchases	4,691
Vehicle Insurance	10,500
Cellular Phones	34,592
Maintenance Staff	324,324
Total	\$390,681

Criteria

HUD regulations contained in 24 CFR 85.20(b)(3) state that the financial management systems of grantees must meet internal control standards. The regulations also stipulate that effective control and accountability must be maintained for all grant funds, real and personal property, and other assets. Grantees must adequately safeguard all

such property and must ensure that it is used solely for authorized purposes.

Part A, Section 4 of the Annual Contribution Contract (ACC) requires the Authority to operate each project in a manner, which promotes serviceability, efficiency, economy, and stability.

Part A, Section 15 of the ACC states that the Authority must maintain complete and accurate books of account for the projects of the Authority in such a manner to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audits.

Part B, Section 15 of the ACC states that the Authority must furnish HUD such financial and project reports, records, statements, and documents at such times, in such form, and accompanied by such reporting data as required by HUD.

Excessive Number of
Housing Authority
Vehicles

The Authority maintained an excessive inventory of motor vehicles. The Authority had 32 vehicles, including 12 cars. A total of 20 Authority employees had an assigned vehicle that they drove home at night. Since relatively few staff were needed for after-hours emergency maintenance calls, there was no justification for the expense of assigning so many vehicles to employees.

The Authority's "Vehicle Use Policy" states: "It is a privilege to drive Housing Authority cars and vans. They are not your personal vehicles. You must sign vehicles out at front desk before use and when you return to the office you must bring keys back to front office." The ED informed OIG that this policy applied to all maintenance department vehicles. Contrary to this policy, 20 of the Authority's 32 vehicles were being taken home on a regular basis. In addition, Authority staff rarely utilized the vehicle sign-out logs. In those instances when the logs were used, the reasons given did not appear to be work related. For example, many entries indicated the vehicle was taken to lunch. The Authority's Maintenance Superintendent was unable to provide a plausible explanation of why Authority vehicles were being taken home. However, he did state that in the past, there was vandalism to vehicles parked overnight at the Authority. According to the ED, the take-

home use of these vehicles was a violation of Authority policy. The ED stated that he would institute a more stringent policy regarding the use of Authority vehicles. In addition, we question the need to provide vehicles for certain staff members, such as the Section 8 manager. Based on the staff's functions and responsibilities, full-time use of several vehicles did not appear warranted.

Our review disclosed that during the period of January 2000 through March 2003, the Authority spent \$97,880 for motor vehicle maintenance costs. The monthly average maintenance costs for the first three months of 2003 were \$4,604. Using this figure, we projected the Authority's 2003 vehicle maintenance costs to be \$55,248 ($\$4,604 \times 12$ months). Although our review determined that the Authority's vehicle maintenance expenditures appeared to be reasonable for a fleet of 32 vehicles, we question the need for such a large fleet. If the Authority implemented a 30% reduction in its motor vehicle fleet, we estimated that potential cost savings of \$16,574 ($\$55,248 \times 30\%$) could be achieved.

For the period of January 2000 through March 2003, the Authority spent \$68,018 on fuel costs. The Housing Authority should examine the need for such a large motor vehicle fleet to determine if the funds required to operate this fleet could be put to better use. The average monthly fuel expenditures for the first three months of 2003 were \$1,303. Using this figure, we projected the Authority's 2003 fuel cost to be \$15,636 ($\$1,303 \times 12$ months). If the Authority implemented a 30% reduction in its motor vehicle fleet, an annual fuel cost savings of \$4,691 ($\$15,636 \times 30\%$) could be achieved.

Inadequate Inventory
Controls and Records for
Housing Authority
Vehicles

The Authority did not have an accurate inventory for Authority owned vehicles. The Authority had 36 vehicles insured through its Group Insurance Policy; however, the Authority actually had only 32 vehicles in its inventory. Six vehicles on the Authority inventory records were no longer available (two were disposed of and four had been traded-in). Three vehicles were missing from the inventory records and one vehicle was recorded twice.

The total annual insurance premium for the 36 vehicles is \$27,000 (\$750 per vehicle). If the motor vehicle inventory had been properly reported to the insurance carrier, the

annual premium would have been \$24,000 (32 vehicles X \$750). This inventory error caused the Housing Authority to overpay \$3,000 to the insurance company for the Policy Period March 1, 2003 to March 1, 2004. The Housing Authority cannot recover this overpayment because this composite rate insurance policy cannot be adjusted during the policy year. However, a significant reduction in the motor vehicle inventory could result in a future cost avoidance. If the Authority implemented a 30% reduction in its motor vehicle inventory (10 vehicles), annual insurance cost savings of \$7,500 (10 vehicles X \$750) could be achieved. In summary, if the Authority insured the proper number of vehicles and reduced their motor vehicle inventory, a total savings of \$10,500 (\$3,000 + \$7,500) could be achieved.

Excessive Number of Cellular Telephones for Housing Authority Staff

We determined that the Authority has an excessive number of cellular phones assigned to its staff. The Authority has 28 Verizon Wireless cellular telephones in use with 21 of the cellular phone users also assigned pagers. In the first four months of fiscal year 2003, the Authority's cellular phone charges totaled \$12,810, an average of \$3,203 per month. While the Authority reviews cellular phone bills for outgoing personal calls, it is impossible to review incoming call charges because incoming phone numbers are not recorded. The inability to review these charges can lead to significant abuse. We projected the Authority's 2003 cell phone charges to be \$38,436 (\$3,203 X 12 months).

The lack of an Authority policy on cell phone use and the excessive monthly charges for the Authority's cell phones revealed a significant lack of internal controls over the appropriate use of cellular phones. If the Authority implemented a 90% reduction in cell phone usage, an annual cost savings of \$34,592 (\$38,436 X 90%) could be achieved.

Excessive Maintenance Staff Relative to the Number of Housing Units

The Authority's maintenance department appears to be overstaffed, resulting in an inefficient use of Authority financial resources. In addition, the Authority did not have adequate budgetary and management controls over maintenance costs.

The Authority maintains approximately 573 family units and 400 elderly units. Housing and Urban Development (HUD) maintenance staffing guidelines recommend one

maintenance staff person to 50 family units and one maintenance staff person to 70 elderly units. The Authority had a maintenance staff of 28 employees (one of the 28 is a half-time employee). Utilizing HUD staffing guidelines, we believe the Authority should have approximately 17 maintenance staff employees. We determined that the average annual salary for a maintenance staff employee was \$30,888. Therefore, if the Housing Authority reduced its maintenance staff by 10.5 positions, an annual savings of approximately \$324,324 ($\$30,888 \times 10.5$) would be achieved.

We determined that although the Authority prepared an annual maintenance budget and reports the costs to HUD, the Maintenance Superintendent was not involved in the budget process. In fact, the Maintenance Superintendent was not even provided the budget or cost information to monitor performance against a budget. In addition, although the Authority had a system in place for monitoring tenant generated and inspection generated maintenance work orders, regular maintenance was not tracked or measured. Also, there was no capital plan for equipment. Without management tools in place to plan, monitor, and control resources and expenditures, there is no assurance that the maintenance function is operating economically and efficiently.

Bank Statements Not Reconciled in a Timely Manner

Proper reconciliations of the Authority's bank accounts were not performed for most of the Authority's programs. Recent bank statements for the months of January through April 2003 were not reconciled consistently. The Finance Director did not provide a satisfactory explanation why bank statements were not being reconciled monthly, as required by HUD.

Invoices Not Reviewed and Approved Before Payment

The Authority paid a significant number of invoices without proper approval. The Authority's cash disbursements system requires that invoices be approved by the Finance Director and the ED before payment. The Finance Director had boxes of unapproved paid invoices located in her office. The Finance Director admitted that invoices had been paid without her approval and she accepted full responsibility for this occurrence. The Finance Director indicated that her heavy workload prevented her from performing all assigned duties.

Section 8 Income and Expenses Inaccurately Reported on AFS

A significant difference existed between the amount of federal Section 8 operating income and expenses reported on the Authority's audited financial statements (AFS) for 2001 and the Year-End Settlement Statement form. The financial statements indicated net operating income of \$1.6 million; however, the HUD Year-End Settlement for 2001 showed a net loss of \$300,000, a difference of about \$1.9 million. In fact, the HUD form calculated \$1.9 million in overpayments to the Authority that was to be repaid. This disparity should not have occurred because the Authority's financial statements were to have been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and expenses when incurred.

The Contract Agreement between the Authority and Independent Public Accountant (IPA) stated in part "the IPA is to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement." The Authority's current Finance Director previously worked as the Authority's IPA and therefore was responsible for preparing annual audited financial statements. The Finance Director did not provide an explanation for the significant difference between the amounts of federal Section 8 net operating income reported on the Authority's financial statements for 2001 and the HUD Year-End Settlement Statement for the same year. The Finance Director (Former IPA) indicated that HUD approved totals were not adjusted in the audited financial statements. We note that the Authority submitted the settlement form on March 14, 2002, well before the IPA report was issued on July 29, 2002. This condition is of particular concern since the Authority had pledged \$200,000 per year in surplus Section 8 administrative fees to pay debt service on the Bonds. Without the surpluses to pay debt service on the Bonds, the Authority's financial viability is threatened (See [Finding 2](#)).

Unaudited Financial Statements Not Submitted to HUD

The Authority was late in submitting its fiscal year 2002 unaudited financial statements. Housing Authorities are required to submit unaudited financial statements to HUD within 60 days after fiscal year end. Since the Authority's fiscal year end was December 31, 2002, unaudited financial statements were required to be submitted by March 1, 2003. However, as of May 23, 2003, the Authority had not submitted its financial statements. The Finance Director

did not provide an adequate explanation of why the unaudited financial statements had not been submitted.

Financial Records in Disorder and Incomplete

The Authority failed to maintain complete and organized records. Without proper record keeping, the Authority lacked assurance it was operating in accordance with applicable laws and regulations. The Finance Director failed to reconcile and close the books in a timely manner for fiscal year 2002. The Finance Director admitted that she was not up-to-date on recording certain accounting transactions.

Throughout the OIG review, we had difficulty obtaining financial records necessary to perform the audit. For example, we requested the Finance Director to provide us a trial balance for all federal programs for fiscal year 2002; however, none was provided. In addition, we made numerous requests of the Finance Director to provide dollar amounts for all grants/awards received and expended by the Authority for fiscal year 2002. The Finance Director did not provide the requested information/documentation.

We determined that records related to Bond transactions were in disarray and in unauditible condition. In some cases, we had to first search for records and put them in order before we could review them. For example, the Finance Director had limited accountability over requisitions, wire transfers, and payments related to the Bonds. Since the Finance Director was not routinely recording Bond transactions, she had no way of knowing what was paid or not paid.

Authority Acquired Public Housing Property Without HUD Approval

The Authority acquired property on 48 Locust Avenue containing three units without first appraising and inspecting the property (purchased sight unseen) and later learned that the property requires extensive rehabilitation to meet Health, Quality and Safety (HQS) standards.

The Authority did not submit a Development by Acquisition Proposal for these units, as required by HUD. Until a development proposal is submitted, HUD cannot consider approval of any units under acquisition. The Authority did not execute an ACC or an ACC amendment for the property acquired. The Authority did not conduct a Physical Needs Assessment on the site before acquisition; therefore, they did not have an estimated cost to modernize

and maintain these units. In addition, the Authority could not provide evidence of HQS inspections and environmental assessments for these units.

The units, which were bought outright for \$297,450, were in poor physical condition and will require repairs costing at least \$100,000. The units need work on furnaces, roofs, siding, structural repairs, wiring, plumbing, decks, windows, driveway/walkways, and porches. The ED was aware that he acted hastily in acquiring the units. However, he explained that he was in a hurry to replace low-income units that were lost to renovations. These conditions will cause an additional strain on the Authority's already fragile financial resources.

The Authority violated sections of the ACC and 24 CFR 941 when it used federal funds to acquire housing units without HUD approval. HUD regulation 24 CFR 941.302 stipulates that a PHA wishing to develop public housing shall execute an ACC or ACC amendment covering the entire amount of reserved development funds or modernization funds it proposes to use. Regulation 24 CFR 941.305 establishes that units shall be developed only in accordance with an approved proposal. Regulation 24 CFR 941.304 dictates that a full proposal for an acquisition of sites should include: a) Project description; b) Description of development method (for example, turnkey acquisition); c) Project costs; d) Appraisal of the property by an independent, state-certified appraiser; and e) an Environmental assessment. The Authority's unauthorized acquisition of this property with federal funds constitutes a default under section 17(B) of the ACC.

Auditee Comments

The Authority's response ([Appendix C](#)) concurs with the OIG findings and has already implemented actions to address several of the cited deficiencies. The Authority has committed to work diligently and closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

**OIG Evaluation of
Auditee Comments**

We consider the Authority's comments to be responsive to our findings and recommendations. The Authority should continue to work closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

Recommendations

We recommend that you require the Authority to:

- 3A. Submit for your review and approval a revised policy regarding motor vehicle needs and usage. The Board should be required to justify providing employees vehicles on the basis of official need, such as after-hour emergency calls. The policy should also require that all vehicles be clearly identified as Housing Authority property. Once the Authority determines the economical number of vehicles required for official use, the Authority should consider selling the excess vehicles.
- 3B. Update its motor vehicle inventory before their insurance policy renewal date to ensure that the correct premium is paid.
- 3C. Develop and submit for your review and approval a policy regarding cellular needs and usage. The Board of Commissioners should be required to justify providing employees cellular telephones on the basis of official needs.
- 3D. Implement a stringent budgeting and monitoring process for the maintenance function. The Authority should evaluate its need for the present number of maintenance staff and to reduce the number of maintenance staff commensurate with the results of the evaluation considering HUD guidelines on Maintenance Staff Ratios.
- 3E. Properly reconcile all bank accounts monthly and review and approve all invoices in a timely fashion.

- 3F. Ensure that future annual audited financial statements provide clarification and explanation regarding any significant variances between the amount of federal Section 8 operating income and expenses reported on the Authority's audited financial statements and the Year End Settlement Statements.
- 3G. Submit annual unaudited financial statements to HUD within 60 days after fiscal year end.
- 3H. Prepare and submit a development proposal to HUD for the three scattered site units that were acquired, but not covered under the ACC.

Ineligible, Unsupported and Unreasonable Costs Incurred

The Housing Authority of the City of Danbury (Authority) incurred \$92,816 in costs, that were ineligible, unsupported, and were unreasonable and/or unnecessary. The Executive Director (ED) and Deputy Director improperly used the Authority's American Express Corporate Card for personal use. The ED charged ceramic tile for his personal residence on the American Express Card and utilized an Authority cellular phone solely for personal use. The ED provided himself a \$20,000 bonus, as well as approving significant bonuses totaling \$53,000 for six other Authority staff. The ED also received a questionable \$10,000 payment. These events occurred because the Authority did not establish adequate controls over the issuance of checks and the use of the Authority's credit cards and cellular phones. The Board of Commissioner's failure to exercise their leadership and monitoring functions contributed to the ineligible costs related to the bonuses because they failed to adequately question the ED's actions. In addition, the Finance Director did not properly monitor credit card payments. The Authority was deprived of \$92,816 of needed operating funds by incurring ineligible salary bonus costs of \$73,000 (one \$20,000 bonus to the ED; and five \$10,000 bonuses and one \$3,000 bonus to staff members), \$10,000 in unsupported costs and other ineligible costs totaling \$9,816 (\$8,663 for ceramic tiles and \$1,153 for personal cellular phone use). The sources of these funds were federal and state operating revenues and the costs were allocated over programs as operating expenses.

Criteria

Part A, Section 4 of the ACC requires the PHA to operate each project in a manner, which promotes serviceability, efficiency, economy, and stability. Part A, Section 2 of the ACC defines operating expenditures as those necessary for the operation of the project.

The Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments. OMB Circular A-87 provides "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded." The Circular further provides that a cost is reasonable if it is recognized as ordinary and necessary for the performance of a federal award and if the entity

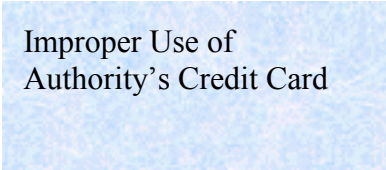
acted with prudence considering its responsibilities to its employees, the taxpayers, and the federal government.

The Authority's Statement of Personnel Policies "Compensation" section states that the "determination of all salaries, hourly rates and extra benefits shall be vested unto the Commissioners of the Authority. All changes will be made at a meeting of the Commissioners with a majority of the Commissioners present voting in favor."

The OIG Program Integrity Bulletin provides that Commissioners are responsible for the actions and decisions made by the Executive Director and other PHA staff.

Commissioners have ultimate responsibility for PHA operations which includes:

- Selecting qualified Executive Directors.
- Reviewing and monitoring budgets and other financial documents to ensure expenditures are in compliance with federal and local laws and other requirements.
- Approving policies and procedures for internal and external monitoring controls.
- Approving policies and procedures to detect and prevent program fraud, waste, mismanagement, and abuse.
- Ensuring that the PHA is acting legally and with integrity in its daily operations.



Improper Use of
Authority's Credit Card

The Authority's ED and Deputy Director charged personal items to Authority issued American Express Cards and later reimbursed the Authority for those items. The ED and Deputy Director were each issued an American Express Card. Incurring charges for personal items is improper because the credit card should be reserved for Authority business only.

The Executive Director charged ceramic tile to the Authority's American Express on two occasions; once on May 11, 2001 for \$3,700 and again on June 6, 2001 for \$4,963 for a total of \$8,663. The ED admitted that the tile was used for his personal residence and that he had forgotten to reimburse the Authority the \$8,663. The ED explained that he used the Authority's credit card to acquire

the tiles because the vendor would not accept his personal credit cards. After we brought this matter to the ED's attention, he issued a personal check, dated May 12, 2003, payable to the Authority for \$8,663.

We determined that the Deputy Director did reimburse the Authority for all items acquired for personal use. For example, the January 8, 2003 American Express Statement showed that the Deputy Director made purchases totaling \$1,502. Of the \$1,502, \$891 was for personal items. The Deputy Director wrote a personal check, dated January 22, 2003, reimbursing the Authority for the \$891 in personal items charged to the American Express Card.

The Authority should establish and enforce a policy dictating that credit cards be used exclusively for business expenses and the Finance Department should review credit card charges more closely.

Improper Use of Cell Phone

The ED improperly used an Authority issued cellular telephone for personal use. The ED incurred phone charges of \$1,153 for the personal use of a phone that was billed to and paid by the Authority. The charges were incurred from January 5, 2000 to April 5, 2003. The Executive Director stated that he would reimburse the Authority for charges incurred as a result of his girlfriend's personal use of an Authority issued cellular telephone.

Ineligible Bonus Payments

The ED provided himself a \$20,000 bonus payment that we determined to be ineligible and paid an additional \$53,000 in bonuses to Authority staff, which we also determined to be ineligible.

The seven bonus payments totaling \$73,000 were made on January 4, 2001. The ED described these bonus payments as compensation for the successful completion of the \$11 million Bond deal. This explanation was confirmed by the Authority's Executive Secretary who manually prepared the bonus checks at the request of the ED.

The bonuses received by recipient were as follows:

Authority Employee	Amount
Executive Director	\$20,000
Deputy Director	10,000
Director of Finance	10,000
Section 8 Program Manager	10,000
Project Manager	10,000
Modernization Coordinator	10,000
Executive Secretary	3,000
Total	\$73,000

As indicated above, the Authority’s Executive Secretary manually prepared the seven bonus checks at the request of the ED. The Executive Secretary stamped the checks with the key signature that includes the names of the Board Chairperson and another Board Member. We determined that there were inadequate controls over the use of the key signature. The key was located in an open drawer in the Finance Department and was potentially accessible to all Authority staff.

Although the Board was aware that seven staff would be receiving bonuses, the specific dollar amounts of the bonuses were not disclosed. The Board was aware of the bonuses because they were disclosed in the Executive Director’s Report to the Board on January 3, 2001. The Report stated that “as part of the closing of the Bonds the Authority will be able to do a one time bonus to staff that were involved in the Bond deal.” Although the Board approved the Executive Director’s Report, the Board Chairperson told the OIG that the acceptance of the ED’s Report into the record did not constitute approval of the actions stated in the Report. Therefore, the OIG does not consider the \$20,000 bonus to the ED to be properly authorized and is considered ineligible. In addition, the remaining \$53,000 in bonuses paid to other Authority employees would be considered ineligible costs.

Our review of the Authority's Personnel Policy manual revealed that the determination of "extra benefits" must be approved by a majority of the Board of Commissioners. Bonus payments would fall under the category of "extra benefits." Under Section 3 - Compensation, the Authority’s Statement of Personnel Policies reads as follows: "The determination of all salaries, hourly rates and

extra benefits shall be vested unto the Commissioners of the Authority. All changes will be made at a meeting of the Commissioners with a majority of the Commissioners present voting in favor."

Even if properly approved, the OIG would consider the bonuses to be unreasonable considering the employees' level of involvement in the Bond deal. Statements made by the employees receiving the bonuses indicate that they had little or no involvement in Bond related activities. The staff reported that the Executive Director preferred handling all Bond related matters alone. Based on the OIG interviews it appears that the employees received the bonuses for performing the normal duties of their assigned jobs.

Unsupported Payment of \$10,000

The ED could not account for a \$10,000 check paid to him from Authority funds on August 21, 2000. This check was deposited into the ED's personal bank account on the same day. The ED stated that the \$10,000 check might have been a bonus payment for the completion of the \$11 million Bond deal. However, this would have been an advance payment since the ED received the check in August 2000 and the Bond deal was not completed until December 2000. There was no supporting documentation, including Board meeting minutes, to justify this payment.

The Board of Commissioners has the ultimate responsibility for the Authority's operations to ensure that the Authority is acting legally and with integrity in its daily operations. Instances of poor internal controls contribute to the Authority's inability to operate efficiently, effectively, and economically. The Authority not only needs to develop proper internal control procedures, but also needs to implement such practices to ensure appropriate administration and compliance with HUD regulations.

Auditee Comments

The Authority's response ([Appendix C](#)) concurs with the OIG findings and has already implemented actions to address several of the cited deficiencies. The Authority has committed to work diligently and closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

**OIG Evaluation of
Auditee Comments**

We consider the Authority's comments to be responsive to our findings and recommendations. The Authority should continue to work closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

Recommendations

We recommend that you require the Authority to:

- 4A. Strengthen internal control procedures to ensure that the Authority's credit cards are used only for eligible, supported, and reasonable charges. Ensure that the \$8,663 reimbursed by the ED was properly recorded.
- 4B. Recover \$1,153 from the prior Executive Director for charges incurred for personal use of a Housing Authority cellular telephone.
- 4C. Recover \$20,000 from the prior Executive Director for the bonus he inappropriately provided to himself. Recover from the Authority the ineligible \$53,000 in additional salary bonuses paid to other staff members. Require the Authority to establish stronger internal controls over manually prepared checks.
- 4D. Provide documentation and justification for the unsupported \$10,000 payment made to the ED so that an eligibility determination can be made. If adequate documentation or justification is not provided, we recommend that you instruct the Authority to recover the \$10,000 from the ED.

Procurement Practices Were Ineffective

The Authority's procurement practices did not comply with HUD regulations and its own procurement policy. The deficiencies included:

- Architect and construction contracts awarded without competition.
- Sole source contract awards not justified.
- Labor standards omitted.
- Services paid for without a contract.
- Change orders not appropriate and not approved by the Board of Commissioners.
- Bid proposals and contract documents missing.

The Authority's management did not fulfill its responsibility to establish and implement effective internal controls over the procurement process. HUD has no assurances that the Authority's procurement process is fair and equitable, and results in a reasonable price for the product or services purchased.

Criteria

Part A, Section 5 of the Annual Contributions Contract (ACC) requires the Authority to comply with all provisions of the ACC and all applicable regulations issued by HUD. Procurement regulations are contained in the Code of Federal Regulations (24 CFR 85.36). These regulations require the Authority to:

- Conduct all procurement in a manner to provide full and open competition {24 CFR 85.36(c) (1)}.
- Maintain sufficient records to show the history of procurement. The records should include the rationale and justification for the method of procurement, the type of contract, the selection of the contractor, and the basis for the contract price {24 CFR 85.36(b)(9)}

The Authority's procurement policy states that the Authority will comply with HUD's Annual Contributions Contract (ACC), HUD Handbook 7460.8, "Procurement Handbook for Public Housing Agencies," and the procurement standards of 24 CFR 85.36. The term procurement includes both contracts and modifications (including change orders) for construction or services, as well as purchase, lease, or rental of supplies and equipment. All contracts and modifications should be in writing, clearly specifying the desired supplies, services or

construction and are supported by documentation regarding method of selection, procurement chosen, the rationale for selecting or rejecting offers and the basis for the contract price.

The Authority's procurement policy dictates that each procurement based on a sole source shall be supported by a written justification for using such procedures. Furthermore, the justification shall be approved in writing by the Contracting Officer (i.e. the Executive Director). In addition, the reasonableness of the price for all procurements based on noncompetitive proposals shall be determined by performing a cost analysis.

Authority Failed to Follow Procurement Regulations

We reviewed 12 contracts/procurements and identified their deficiencies. The total cost of the contracts/procurements was \$11,728,444. For 8 of the 12 contracts/procurements, we identified violations of HUD regulations and/or the Authority's Procurement Policy as follows:

Work Performed	Costs (1)	Deficiency
A/E - High Ridge	\$ 362,500	1,3
Contractor -High Ridge	4,998,000	1,2,3,6
A/E - Laurel Gardens III	136,000	1,3
Contractor-Laurel Gardens III	2,267,227	1,2,3,6
A/E - Laurel Gardens II	96,000	N/A
Contractor-Laurel Gardens II	1,197,033	5
A/E - Laurel Gardens Phase I	170,000	N/A
Contractor - Laurel Gardens I	2,083,902	5
A/E - Wooster Manor Elevator	16,770	N/A
Contractor - Wooster Manor	279,500	N/A
Authority's Attorneys	57,967	4
Community Action - Danbury	63,545	4
Totals	\$11,728,444	

(1) Costs represent either contract amounts or actual costs.

Deficiency Explanations:

1. Architect (A/E) and construction contracts awarded without competition.
2. Labor standards omitted.
3. Sole source contract awards not justified.
4. Services paid for without a contract.
5. Change orders not appropriate and not approved by the Board of Commissioners.

6. Bid proposals and contract documents missing.

Architect Contract
Awarded Without
Competition

The Authority contracted with the Architect to provide architectural services for the renovations of Laurel Gardens (Phase III) and High Ridge Gardens without competition. The Modernization Coordinator told the OIG that the Authority did not use competitive proposals for architectural services. Selection was based on the Architect's history with the Authority. For the period, February 13, 2001 through August 21, 2002, the Architect was paid \$303,515 for High Ridge Gardens and \$79,972 for Laurel Gardens - Phase III.

Procurement regulations for competitive proposals, 24 CFR 85.36(d)(3), stipulate that:

"The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded."

If this method is used, the following requirements apply:

- RFPs will be publicized and identify all evaluation factors and their relative importance {24 CFR 85.36(d)(3)(i)}.
- RFPs will be solicited from an adequate number of qualified sources {24 CFR 85.36 (d)(3)(ii)}.
- Grantees and sub-grantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees {24 CFR 85.36 (d)(3)(iii)}.
- Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered {34 CFR 85.36 (d)(3)(iv)}.

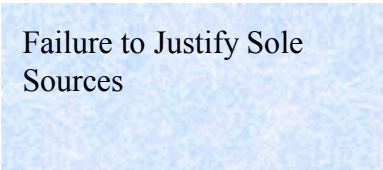
Construction Contract
Awarded Without
Competition

The Authority contracted with a Construction Company to renovate Laurel Gardens (Phase III) and High Ridge Gardens without competition. Rather than solicit bids for the construction work in order to achieve open and free competition, the Authority granted the work to a contractor it preferred. The Executive Director (ED) stated that the

Authority bypassed the bidding process because he considered the Bonds to be a source of private funding despite HUD's collateralization of the Bonds.

In accordance with 24 CFR 85.36(d)(2) for procurement by sealed bids, bids are publicly solicited and a firm-fixed-price contract is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction.

The Authority disregarded these regulations in order to expedite the hiring of the Contractor. As a result, HUD had no assurance that the Authority's procurement process was fair and equitable, and resulted in a reasonable price for the construction work. The ED, acting as the Contracting Officer, failed to provide adequate justification for not following regulations. The Modernization Coordinator told OIG that with the Authority's issuance of the Bonds, it discontinued public solicitations of contracts because the funds being used were not received directly from HUD. On November 8, 2002, the Contractor defaulted on the contract and all work at High Ridge Gardens was terminated. For the period, February 13, 2001 through August 21, 2002, the Contractor was paid \$2,368,861 for High Ridge Gardens and \$2,264,870 for Laurel Gardens (Phase III).



Failure to Justify Sole Sources

The Authority considered construction contracts awarded for High Ridge Gardens and Laurel Gardens (Phase III) to be sole source contracts. The Authority did not maintain records that would justify using a sole source contractor. The Authority paid the Contractor \$2,368,861 for renovation of 60 housing units at High Ridge Gardens and \$2,264,870 for the renovation of 32 housing units at Laurel Gardens (Phase III).

Procurement guidelines, under 24 CFR 85.36(d)(4), stipulate awarding contracts under non-competitive procedures only when the award of a contract is not feasible using alternative procedures and one of the following applies: (1) the items is available only from a single source; (2) an emergency exists and the need cannot be met through any other procurement methods; (3) HUD authorizes non-competitive proposals; or (4) competition is determined inadequate. HUD Handbook 7460.8 describes

an emergency as a situation that would otherwise cause injury to the PHA, as may arise by reason of a flood, earthquake, epidemic, riot, equipment failure, or similar event.

The ED attempted to justify the use of sole source contracting because he believed that Bond proceeds had to be spent within three years after the Bonds were issued. We contend that these circumstances did not justify the use of sole source contracting because a period of three years was more than sufficient time to conduct competitive solicitations.

The ED also stated that the Bonds were considered a source of private funding; therefore, HUD procurement regulations would not apply. We do not concur that HUD procurement regulations would not apply since the Authority leveraged HUD's Capital Fund Program grants towards repayment of the Bonds. Subsequently, the ED agreed that he did not follow the Authority's procurement policy and that the contract should not have been awarded as sole source.

Labor Standards Omitted

The Modernization Coordinator told the OIG that all labor standards for work completed at High Ridge Gardens and Laurel Gardens (Phase III) were omitted because the Authority considered the Bonds to be private funds.

Procurement guidelines, under 24 CFR 85.36(i)(5) require compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented in Department of Labor regulations (29 CFR part 5).

Paying for Services Without a Contract

The audit disclosed two occurrences where no contract existed for services provided. The ED stated that the Authority did not have a signed contract with the Authority's counsel to provide legal services. The ED provided a "Memorandum of Understanding" dated June 26, 1992 (not signed) that outlined in general terms, their billing policy and scope of work to be performed. The Authority's counsel informed us that there was no legal contract with the Danbury Housing Authority. The Authority paid a total of \$106,617 in legal fees for the period January 1, 2001 to March 20, 2003, of which \$57,967 was allocated to federal programs.

No contract existed between the Authority and the Community Action Committee of Danbury (CACD). The Executive Director advised that the Authority had an oral agreement with CACD to modify the kitchen located in the community room of Laurel Gardens (Phase II) at a cost of \$63,545. The ED decided that the costs would be paid from the Bond proceeds and CACD would reimburse the Authority.

Without a contract in place, there was no basis to determine if services provided or amounts billed were reasonable. In addition, there was no basis to evaluate and settle legal issues. By not having contracts in place, the Authority was at risk for over billing and inadequate services.

Change Orders
Inappropriate and Not
Approved by Board of
Commissioners

We reviewed the procurements/contracts for Laurel Gardens (Phase I), Laurel Gardens (Phase II) and the Wooster Manor's elevator service. For the architectural and construction contracts pertaining to the elevator service, the Authority adhered to its procurement policy and the procurement standards of 24 CFR 85.36. However, our review of changes orders for Laurel Gardens (Phase I and II) disclosed violations of HUD regulations and/or the Authority's procurement policy. The Authority's Modernization Coordinator stated that none of the change orders for Laurel Gardens (Phase I and II) were presented to the Board of Commissioners for discussion or approval.

The Construction contract at Laurel Gardens (Phase I) was awarded March 25, 1998 for \$1,775,000. Our review of construction files disclosed 15 change orders totaling \$308,902; thereby increasing the total cost of the contract to \$2,083,902, an increase of 17% over the original price. The Modernization Coordinator told OIG that change order # 7 for \$156,364, affected everything from the roof of the stair towers to the platforms and entryways. This significant change in scope should have required the Authority to treat this as a new procurement, not a change order, because it exceeded the \$100,000 small procurement threshold, as described in 24 CFR 85.36(g)(2)(v).

The Construction contract at Laurel Gardens (Phase II) was awarded March 20, 2000 for \$940,000. Our review of construction files disclosed eight change orders totaling \$257,032; thereby increasing the total price of the contract to \$1,197,033, an increase of 27% over the original price.

The Modernization Coordinator stated that change order # 1 for \$107,190, dated March 21, 2000, was executed one day after the contract was awarded. The change order was the result of a new wage rate decision that the Authority should have been aware of at time the contract was awarded.

Bid Proposals and
Contract Documents
Missing

The Authority's contract files for High Ridge Gardens and Laurel Gardens (Phase III) did not contain histories of the procurements as required by both the Authority's procurement policy and federal regulations. The Authority did not have records showing the rationale for the method of procurements, contractor selection, and basis for contract prices. Without sufficient documentation showing a history of procurements, we were unable to assess whether costs were reasonable and eligible. Neither the ED nor the Modernization Coordinator was able to find any documentation on file related to these procurements.

The Authority's Statement of Procurement Policy complies with HUD's Annual Contributions Contract, HUD Handbook 7460.8, "Procurement Handbook for Public Housing Agencies," and the procurement standard of 24 CFR 85.36. However, as shown above, the Authority did not follow its policy in all cases and made management decisions that were contrary to the best interests of the Authority and its tenants. Wasteful procurements drain the Authority's limited financial resources and contribute to fiscal problems. It is the responsibility of the Authority's management to assure that only essential materials and services are purchased and that procurements are made for the best possible products at fair and reasonable prices.

Auditee Comments

The Authority's response ([Appendix C](#)) concurs with the OIG findings and has already implemented action to review and update its procurement policy for full compliance. The Authority has committed to work diligently and closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

**OIG Evaluation of
Auditee Comments**

We consider the Authority's comments to be responsive to our findings and recommendations. The Authority should continue to work closely with its Board of Commissioners, HUD's Recovery and Prevention Corp, and HUD program officials to resolve all outstanding findings in the audit.

Recommendations

We recommend that you require the Authority to:

- 5A. Adhere to HUD regulations and its own procurement policy in awarding competitive or sole source contracts.
- 5B. Comply with wage rates under the Davis Bacon Laws.
- 5C. Solicit bids for all services exceeding \$100,000, which are not under contract.
- 5D. Adhere to HUD procedures regarding whether changes to a contract would qualify as a change order or new scope of work. Follow procedures, which assure that all change orders are submitted for approval to the Board of Commissioners.
- 5E. Maintain documentation supporting the basis for contracts awarded, including history of procurement and appropriate analysis.

Management Controls

In planning and performing our audit, we considered the management controls used by the Housing Authority of the City of Danbury (Authority) that were relevant to our audit objectives. We considered the Authority's management control system to determine our auditing procedures and not to provide assurance on management controls.

Management Controls consist of a plan of organization, 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

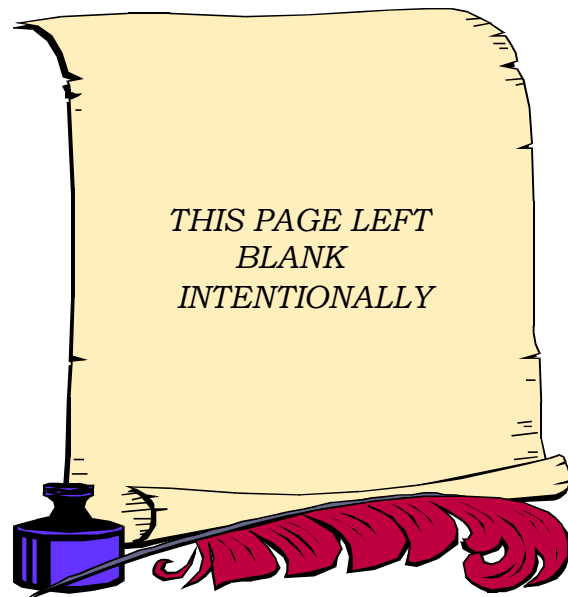
We determined the following management controls were relevant to our audit objectives:

- Administrative controls to assure proper management of the Bonds.
- Financial controls over the Bonds to assure proper accounting.
- Management controls over program receipts and expenditures.
- Safeguards over assets and records and compliance with applicable laws, regulations, and contractual agreements.
- Management controls over procurement and contract administration.

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.

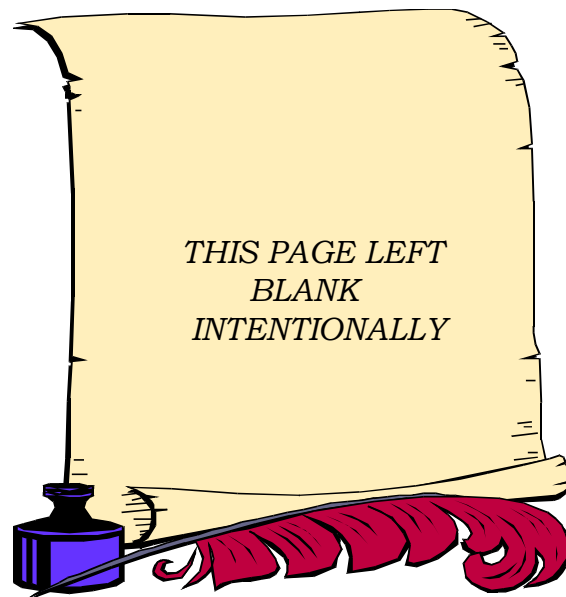
Our review identified significant weaknesses in all of the management control areas we assessed. Specific control weaknesses applicable to HUD programs are described in the Findings sections of this report.



Summary of Questioned Costs and Funds Put to Better Use

Recommendation Number	Type of Questioned Cost		Funds Put to Better Use <u>3/</u>
	Ineligible <u>1/</u>	Unsupported <u>2/</u>	
1 A	\$790,000		
1A	\$50,000		
1C	\$950,000		
1D	\$ 31,693		
1E		\$ 50,000	
3A			\$ 16,574
3A			\$ 4,691
3B			\$ 10,500
3C			\$ 34,592
3D			\$324,324
4A	\$ 8,663		
4B	\$ 1,153		
4C	\$ 73,000		
4D		\$ 10,000	

- 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.



OIG Cash Flow Analysis

	Authority Available Funds Note: 1	Bond Principal Payments Note: 2	Bond Interest Payments Note: 3	Total Debt Service (P & I) (C)+(D)=(E)	Bond Service Fees Note: 4	Total Bond Costs (E)+(F)=(G)	Modernize Funds Available (B)-(G)=H	Modernize Funds Needed (I) Note: 5	Surplus (Deficit) Funds (H)-(I)=(J)
Year	(B)	(C)	(D)	(C)+(D)=(E)	(F)	(E)+(F)=(G)	(B)-(G)=H	(I)	(H)-(I)=(J)
2000	\$934,832	0	15,278	15,278	659,373	674,651	260,181	\$1,176,808	(916,627)
2001	\$934,832	0	271,799	271,799	174,851	446,651	488,181	\$719,366	(231,185)
2002	\$934,832	0	149,757	149,757	173,324	323,081	611,751	\$80,003	531,748
2003	\$934,832	190,000	412,500	602,500	173,188	775,688	159,144	\$0	159,144
2004	\$934,832	200,000	405,375	605,375	167,324	772,699	162,133	510,900	(348,767)
2005	\$934,832	215,000	397,875	612,875	164,524	777,399	157,433	510,900	(353,467)
2006	\$934,832	225,000	389,813	614,813	161,514	776,327	158,505	510,900	(352,395)
2007	\$934,832	240,000	381,375	621,375	158,364	779,739	155,093	510,900	(355,807)
2008	\$934,832	255,000	372,375	627,375	155,004	782,379	152,453	510,900	(358,447)
2009	\$934,832	275,000	362,813	637,813	151,434	789,247	145,585	436,000	(290,415)
2010	\$934,832	290,000	352,500	642,500	147,584	790,084	144,748	436,000	(291,252)
2011	\$934,832	310,000	341,625	651,625	143,524	795,149	139,683	436,000	(296,317)
2012	\$934,832	330,000	330,000	660,000	139,184	799,184	135,648	436,000	(300,352)
2013	\$934,832	350,000	317,625	667,625	134,564	802,189	132,643	436,000	(303,357)
2014	\$934,832	375,000	304,500	679,500	129,664	809,164	125,668	437,200	(311,532)
2015	\$934,832	400,000	290,438	690,438	124,414	814,852	119,980	437,200	(317,220)
2016	\$934,832	425,000	275,438	700,438	118,814	819,252	115,580	437,200	(321,620)
2017	\$934,832	450,000	259,500	709,500	112,864	822,364	112,468	437,200	(324,732)
2018	\$934,832	480,000	242,625	722,625	106,564	829,189	105,643	437,200	(331,557)
2019	\$934,832	510,000	224,625	734,625	99,844	834,469	100,363	424,000	(323,637)
2020	\$934,832	545,000	205,500	750,500	92,704	843,204	91,628	424,000	(332,372)
2021	\$934,832	580,000	185,063	765,063	85,074	850,137	84,695	424,000	(339,305)
2022	\$934,832	615,000	163,313	778,313	76,954	855,267	79,565	424,000	(344,435)
2023	\$934,832	655,000	140,250	795,250	68,344	863,594	71,238	424,000	(352,762)
2024	\$934,832	700,000	115,688	815,688	59,174	874,862	59,970	424,000	(364,030)
2025	\$934,832	745,000	89,438	834,438	49,374	883,812	51,020	424,000	(372,980)
2026	\$934,832	795,000	61,500	856,500	38,944	895,444	39,388	424,000	(384,612)
2027	\$934,832	845,000	31,688	876,688	27,814	904,502	30,330	424,000	(393,670)
	<u>11,000,000</u>	<u>7,090,272</u>	<u>18,090,272</u>	<u>3,894,311</u>	<u>21,984,583</u>	<u>4,190,713</u>	<u>12,712,677</u>	<u>(8,521,964)</u>	

Explanatory Notes:

1. Authority available funds were comprised of \$734,832 (94% of \$784,832 CY2002 level) in anticipated CFP grants and \$200,000 in Section 8 Program income per year (\$734,832 + \$200,000 = \$934,832).
2. Bond principal repayments were based on the amortization schedule provided by the Bond underwriters.

OIG Cash Flow Analysis

3. Bond interest payments represent actual costs through CY2002 and estimated costs at a forecast variable interest rate 3.75% thereafter. The 3.75% rate is a conservative estimate of long term debt based on a credit enhanced (Bank guaranteed line of credit) bond rating. Marketing presentations prepared by Bond underwriters and the Bank that we were provided by the Authority contained rates in the 3.75% – 4.00% range. The rates were based on historical market rates for the period January 1985 – April 4, 2002.
4. The fees are actual costs through 2002 and include significant one time underwriting, line of credit guarantee, and consultant costs. For 2003 forward we calculated the fees as follows
 - a. L/C Fees Line of Credit (L/C) fees were calculated at 1.25% of the outstanding principal balance based on the "Reimbursement Agreement" Item 3.1 (d)
 - b. Remarketing Fees Calculated at .15% of the outstanding bond principal balance per the "Remarketing Agreement" Section 7.
 - c. Trustee Fees Based on the Indenture of Trust, Section 6.6, and historical experience for 2001 and 2002.
 - d. Bond Rating Fees Based on the historical amounts paid to rate the bonds.
 - e. L/C Draw Fees Based on \$100/draw per month as stated in section 3.1 (b) of the "Reimbursement Agreement".
 - f. Consultant Fees Based on the service agreement between the consultant and the Authority.
5. For Fiscal years 2000 through 2002 we utilized actual costs provided by the Authority's Modernization Coordinator. For Fiscal years 2003 through 2027 we utilized estimate costs provided by the Authority's Modernization Coordinator.

Auditee Comments

Housing Authority of the City of Danbury

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REV. MEREDITH PAYTON, VICE CHAIRMAN
DOMENICO M. CHIEFFALO, TREASURER
C. MARIA MOFFETT

DIANA M. BURGOS, INTERIM EXECUTIVE DIRECTOR

November 20, 2003

Barry L. Savill, Regional Inspector General
Office of Audit
U.S. Department of Housing & Urban Development
Thomas P. O'Neill, Jr. Federal Building Room 370
10 Causeway Street
Boston, MA 02222-1092

Re: Draft Audit Report

Dear Mr. Savill:

I am in receipt of the final draft audit report with cover letter dated November 18, 2003.

The following are actions implemented to date in addressing several stated deficiencies.

1. All agency vehicles with the exception of the on-call maintenance vehicle are parked on the premises at the close of every business day. Vehicles can only be used for official agency business. Vehicles must be signed in/out with the Superintendent of Maintenance who keeps keys, mileage log and responsible for fleet upkeep.
2. All cellular phones were turned into the purchasing agent on May 31, 2003 and disconnected with the exception of the following authorized personnel:
 - a. Superintendent of Maintenance
 - b. Maintenance Foreman (2)
 - c. Housing Inspectors (2)
 - d. Resident Services Coordinator, elderly
3. Motor vehicle inventory has been prepared with recommendation for the sale or trade-in of three Dodge Neon's and four trucks. Vehicles are considered excess or in need of replacement.
4. Development proposal for 26 units (as replacements for lost units at Laurel Gardens) has been submitted to TARC for ACC approval.
5. Agency has hired new Finance Director who has been working with independent auditors for the past three months to implement effective management and accounting controls.



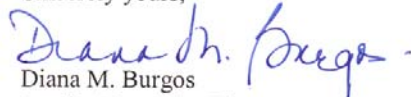
MEMBER NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Auditee Comments

6. Agency's FYE 2002 audit will be completed by December 2003 and late submission of PHAS will occur.
7. All bank accounts are reconciled monthly.
8. All invoices are reviewed by the treasurer of the board and approved for payment by the Finance Director and the Interim Executive Director.
9. Procurement policy is being reviewed and updated for full compliance
10. Inventory on maintenance equipment and supplies is in progress for proper accounting and tenant billing.
11. Agency currently has one American Express credit card and one Master Card which will be strictly for agency use with review of monthly billing by the Finance Director.
12. Agency is currently evaluating all personnel relative to the total number of housing units and the agency's financial situation.
13. Former Executive Director has been made aware of funds owed to the agency specifically for cellular phone charges.

As to the remaining recommendation, the staff of the Housing Authority of the City of Danbury will work diligently and closely with its Board of Commissioners, the Recovery and Prevention Corp and the HUD officials to resolve all outstanding findings of this audit.

Sincerely yours,


Diana M. Burgos
Interim Executive Director