

Audit Report Number 98-BO-204-1002

Issue Date: October 28, 1997

TO: Kevin E. Marchman, Acting Assistant Secretary,
Office of Public Housing and Indian Housing, P

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

SUBJECT: City of New Haven Housing Authority
HOPE VI Grant Program
New Haven, Connecticut

As requested, we audited the Housing Authority of the City of New Haven's (PHA) HOPE VI Grant Program. The overall objective of our audit was to determine if the PHA had accountability over funds expended and to report on the eligibility and reasonableness of the PHA's reported expenditures.

The PHA did not establish accountability over its HOPE VI Program funds. The PHA operated without effective managerial and internal control systems over its HOPE VI Program expenditures; operated without maintaining adequate documentation to support expenditures of \$3.4 Million charged to its HOPE VI Program; and transferred the management of its HOPE VI Program to the Elm Haven Homes Partnership (EHHP) without an approved contract and proper oversight.

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

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

Executive Summary

We performed an audit of the Housing Authority of the City of New Haven's (PHA) management of its HOPE VI Grant Program. The PHA was awarded \$45,331,593 in Fiscal Year (FY) 1993 for the purpose of revitalizing the Elm Haven Public Housing Development, Project No. CT26P004-001. As of April 30, 1997, the PHA reported that over \$3.4 million was expended. The purpose of our audit was to determine if the PHA provided accountability for the HOPE VI Program funds and if reported expenditures were reasonable and eligible.

Audit results

The PHA failed to implement adequate accounting and managerial controls over its HOPE VI Program. Consequently, the eligibility and reasonableness of reported expenditures could not be determined. The PHA's failure to implement adequate accounting and managerial controls resulted in the following deficiencies at April 30, 1997.

- \$852,727 in Program costs were unsupported at the Grantee level;
- \$244,610 in Program funds were advanced to the PHA's General Fund in excess of returns;
- Program administration costs were \$773,342 over budget;
- No executed contract existed between the PHA and the Elm Haven Homes Partnership;
- Subgrantee contract lacked sufficient controls;
- City of New Haven's HOPE VI Program matching funds were not identified; and
- Unnecessary employment overhead costs were incurred.

Default letter issued

On July 21, 1997 a default letter was issued to the PHA for its failure to reach any of the start/completion dates of the Elm Haven revitalization effort as set forth in recent updated implementation schedules submitted to HUD. In response to this letter, the PHA was required to cure the default within 30 days, or develop a default resolution plan demonstrating that the PHA has recognized and can resolve every factor which has caused it to fail to expeditiously

revitalize the public housing units covered by the grant agreement within 90 days. On August 21, 1997, the PHA submitted a Default Resolution Plan for the Elm Haven HOPE VI project. The plan is being reviewed by HUD staff and, at this time, no formal decision has been made regarding its acceptance.

Actions taken to resolve conditions

On July 15, 1997 a meeting was held with the PHA's new management and staff from HUD Headquarters and the Connecticut State Office. The PHA advised that some corrective actions have been taken and other corrective actions are in the process. The PHA has replaced its Executive Director with a temporary consultant and is replacing and realigning its staff resources to assure that all expenditures will be approved by a Manager, controlled, supported and properly accounted for. The PHA advised in a July 31, 1997 letter that many of the actions to be taken to address the concerns over past poor management practices are still being finalized as part of the default resolution plan. Therefore, final resolution of many findings may need to be deferred until HUD's approval of the plan.

Recommendations

We recommend that the PHA establish fiscal accountability and effective internal controls and that HUD make a determination as to whether the PHA has the capacity to continue with the HOPE VI Program. We further recommend that the PHA obtain documentation for all unsupported expenditures.

Findings and recommendations discussed

We discussed the finding with PHA officials during the course of our audit. On September 30, 1997, the PHA provided a detailed response to each of the specific concerns discussed in the draft report. The PHA generally agreed with the control deficiencies cited in the report. We have included the PHA's pertinent comments in the Finding and Recommendations section of this report. The PHA's full response is included in Appendix C.

Table of Contents

Management Memorandum	i
Executive Summary	iii
Introduction	1
Finding	
Accountability For \$3.4 Million In Reported Expenditures Not Established	5
Internal Controls	17
Appendices	
A Schedule of Unsupported Cost	19
B Disbursement Deficiencies	21
C Auditee Comments	25
D Distribution	31

Abbreviations

A/P	Accounts Payable
A/R	Accounts Receivable
B/CJ	Beacon/Corcoran Jennison Partners
CFR	Code of Federal Regulations
CSO	Connecticut State Office

DPNH Dunhill Personnel of New Haven
EHHP Elm Haven Homes Partnership
EHRC Elm Haven Resident Council, Inc.
FY Fiscal Year
GF General Fund
GNHBP Greater New Haven Business & Professional Association, Inc.
HOPE VI HOPE VI Grant Program
LEAP Leadership, Education and Athletics in Partnership
LIPH Low Income Public Housing
LOCCS Line of Credit Control System
OIG Office of the Inspector General
PHA Housing Authority of the City of New Haven

TH&D Tise, Hurwitz & Diamond, Inc. & Jones Architects, Inc.

Introduction

The Housing Authority of the City of New Haven (PHA) was created in 1938 by an ordinance of the Board of Aldermen of the City of New Haven. A five member Board of Commissioners, appointed by the Mayor of the City of New Haven, governs the PHA. The Chairman of the Board is Helen Bosley. Currently, the PHA has 32 developments.

The Mayor of the City of New Haven was concerned about the poor management at the PHA and sought personal intervention from former HUD Secretary Cisneros. As a result, a task force from the Office of Assistant Secretary for Public and Indian Housing, after visiting the PHA contracted with the consulting firm of Quadel Consulting Corporation (Quadel), in November 1996 to conduct an assessment of the PHA.

Quadel's assessment was presented in a "Final Report on Management Assessment of the Housing Authority of the City of New Haven" dated January 13, 1997. Subsequently, Quadel was requested under a separate contract to develop and monitor progress and provide limited technical assistance under a six month operational improvement plan.

In fiscal year 1993, the PHA was awarded \$45,331,593 under the Urban Revitalization Demonstration HOPE VI Grant Program (HOPE VI Program) for the purpose of revitalizing the Elm Haven Public Housing Development, Project No. CT26P004-001. As of April 30, 1997, the PHA reported \$3,380,114 in HOPE VI Program expenditures. The PHA had drawdown \$2,199,558 from HUD.

Description	Funds Awarded	Funds Drawdown	5/9/97 Balance of Funds Awarded to be Drawdown
Management Improvement	\$ 7,824,213	\$ -0-	\$ 7,824,213
Administration	1,107,700	549,533	558,167
Fees and Costs	4,119,798	1,648,467	2,471,331
Site Acquisition	400,000	-0-	400,000
Dwelling Structures	25,319,612	-0-	25,319,612
Non-dwelling Structures	1,434,395	-0-	1,434,395
Demolition	4,298,000	-0-	4,298,000
Relocation Costs	827,875	1,558	826,317
Total	\$45,331,593	\$2,199,558	\$43,132,035

On March 13, 1997, HUD placed an automatic review in the Line Of Credit Control System (LOCCS) on all of the PHA's expenditures of HOPE VI Program funds. This action was initiated because of issues raised in the December 9, 1996 Management Assessment Report of the PHA, and a review of the HOPE VI Program conducted by the Grant Manager which revealed a lack of supporting documentation for many HOPE VI Program expenditures.

Quadel's April 1997 status report on the PHA's progress indicated that they were increasingly concerned about the lack of energy and commitment to problem solving evidenced by the PHA's top management. On June 10, 1997 the PHA's Executive Director resigned. Since this time, a representative from Quadel has been acting Interim Executive Director and is responsible for the PHA's daily operations.

Audit objectives

The overall audit objective was to determine if the PHA's fiscal management systems provided accountability for funds expended for the HOPE VI Program. In addition, our audit focused on the eligibility and reasonableness of the HOPE VI Program expenditures. The specific audit objective was to determine whether the PHA provided adequate accounting and monitoring of the HOPE VI Program funds which it was awarded.

Audit scope

To achieve the audit objectives, we:

- Reviewed the Grant Agreement, HUD Regulations, PHA Contracts and Subgrant Agreements relating to the HOPE VI Program.
- Reviewed the PHA's financial records pertaining to the HOPE VI Program including checking account bank statements, General Ledger, Cash Disbursements and Receipts Journals, and Journal Vouchers.
- Identified the sources and application of funds from the HOPE VI Program checking account for the period June 1995 through April, 1997.
- Identified the nature and sources of \$3.4 million in costs charged to the HOPE VI Program through April 30, 1997.

- Reviewed the eligibility of payroll allocations to the HOPE VI Program.
- Reviewed the PHA's support for and eligibility of cost charged to the HOPE VI Program for other than direct and allocated payroll cost.
- Interviewed staff from the HUD Connecticut State Office Public Housing Division, HUD Office of Public Housing Investments, former and current PHA staff, and representatives from consultant and CPA firms, and the Elm Haven Homes Partnership.

The audit covered the period December 5, 1994 through April 30, 1997. The audit period was extended as necessary.

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

Accountability For \$3.4 Million In Reported Expenditures Not Established

The Housing Authority of the City of New Haven (PHA) did not establish accountability over its Public Housing HOPE VI Grant Program (HOPE VI Program) expenditures, which at April 30, 1997 totaled \$3,380,114. The PHA failed to maintain adequate accounting and monitoring systems over its HOPE VI Program funds. As a result, the PHA is unable to assure HUD that the charges to its HOPE VI Program are reasonable, eligible and an effective use of limited Federal Funds.

The HOPE VI Program Grant Agreement and HUD regulations require proper accounting and monitoring controls over all grant activities. The deficiencies occurred as a result of the PHA's staff's inability to effectively manage and account for its Federal funds. HUD needs to assure that the PHA can establish and maintain fiscal accountability and effective controls to assure that scarce Federal funds are used effectively and efficiently.

Inadequate accounting and monitoring systems

The following deficiencies in the PHA's accounting and monitoring systems existed:

- Commingling of HOPE VI Program funds;
- Ineligible payroll allocations;
- Insufficient documentation to support expenditures;
- No executed contract with entity managing the HOPE VI Program;
- Insufficient controls over Subgrantee contracts; and
- No identification of City matching funds.

HOPE VI program funds were commingled

HOPE VI Program Grantees are not allowed to commingle awarded funds. The PHA's Grant Agreement, Article IV paragraph 8, provided that the:

"Grantee will not commingle HOPE VI grant funds with funds from any other sources including, but not limited to, other HUD program funds or funds from other Federal, State or local government agencies."

\$244,610 advanced to PHA's General Fund

The PHA commingled HOPE VI Program Funds with its General Fund (GF). The HOPE VI Program Checking Account shows \$1,245,000 was transferred to the PHA's GF from June 1995 through April 1997. During that same period, \$1,000,390 was transferred back to the HOPE VI

Program Checking Account from the PHA's GF. These transactions resulted in an advance of \$244,610 in violation of program requirements.

Ineligible payroll allocations

As of April 30, 1997, \$934,923 of the \$3.4 million in HOPE VI Program charges is attributed to the HOPE VI Program administration expense for payroll allocations of PHA employees' salary and benefits. These allocations ceased in Fiscal Year (FY) 1997 because there was no budget available in the HOPE VI Program for administration expenses. Four concerns were identified regarding the payroll allocations in FYs 1995 and 1996.

Payroll allocations not based on actual time

Payroll costs were prorated to the HOPE VI Program based upon units instead of time spent on Program grant-related activities. The Code of Federal Regulations (CFR), 24CFR Part 85.20a(6) provides:

"Accounting records must be supported by such source documentation as...time and attendance records, contract and subgrant award documents"

In addition, the Office of Public Housing Investments HOPE VI Guidebook, section BLI 1410 - Administration, provides:

"All administrative expenses on the part of the Grantee must be prorated in accordance with the time spent on HOPE VI grant-related activities."

The PHA was allocating 10.03 percent of all its administration employees' payroll to the HOPE VI Program administration expense account. According to the PHA's accounting staff, the PHA used the number of units as a basis for the allocation percentages and not the time spent on each program.

Basis for payroll allocations percentage not justified

The PHA allocated its administrative payroll cost based on undocumented estimates of an individual department's estimated annual payroll. For example, the PHA applied a rate of 18.75 percent for FY 1996 to certain administrative departments budgeted payrolls, compared the calculated result to the PHA's total projected administrative payroll and arrived at a rate of 10.03 percent of the entire administrative payroll which then was charged to the HOPE IV Program. The rate of 18.75 percent was not supported. We note that on a unit basis, the Elm Haven project represents 12.86 percent of the PHA's inventory.

Non-related employee costs allocated to HOPE VI Program

The PHA was allocating the salary and benefits of all administration employees. This is questionable because few of the PHA's administrator employees actually work on the HOPE VI Program. The Office of Public Housing Investments HOPE VI Guidebook, section BLI 1410 - Administration, provides:

"The Grantee must detail the PHA personnel that will be working on the project and the percentage of time for each person. This proration should be consistent with the Staffing and Time Allocation Plan submitted by the PHA."

In the PHA's FY 1996 Locally-Owned Operating Budget, payroll for employees in certain administration departments were identified to be allocated to the HOPE VI Program. However, the PHA was also allocating payroll of employees in departments that were not identified. For example, the PHA did not identify the payroll of staff in the Purchasing Department, Warehouse Department, and Section 8 and Leased Housing Department in the budget proposal, yet their salaries and benefits were allocated to the HOPE VI Program. There was no documentation to substantiate why these payroll costs were allocated.

Duplicate administration costs allocated

The salary and benefits of the PHA's HOPE VI Program Coordinator were charged as a direct expense and again as an indirect expense. A percentage of his salary and benefits was also allocated to several Federal Programs, including HOPE VI Program, Section 8, Low Income Public Housing (LIPH) and Moderate Rehabilitation Program (MOD Rehab) resulted in duplicate charges.

For example, in September 1996 the PHA charged \$25,088 in monthly administration salaries to the HOPE VI Program administration account. The \$25,088 is based on 10.03 percent of all administration departmental employees' salaries for that month including the salaries of the Executive Director's departmental employees, which included the PHA's HOPE VI Program Coordinator. However, the PHA also directly charged \$7,781 to the HOPE VI Program administration account for the HOPE VI Program Coordinator's salary and benefits for the month of September. Therefore, there was a duplication of charges.

Furthermore, not only was 10.03 percent of the HOPE VI Program Coordinator's salary allocated to the HOPE VI Program, the remaining 90 percent was also allocated to other programs, including Section 8, LIPH, and MOD Rehab. Therefore, the HOPE VI Program Coordinator's

"total" salary was charged twice; once as a direct expense to the HOPE VI Program, and secondly as a percentage allocated as part of the administration pool to several other Federal Programs including the HOPE VI Program.

Budget over-run of \$773,342

As a result of the PHA charging ineligible costs to the HOPE VI Program administration account, the PHA overran its budget for this line item. At April 30, 1997, the HOPE VI Program had recorded administration costs of \$1,323,342 against a proposed budget of \$1,107,700, resulting in an over run of \$215,642. However, as of July 17, 1997 only \$550,000 has been approved by HUD for administration costs. Therefore, the actual budget over run was \$773,342. This event indicates that the PHA has not established effective budgetary controls over the HOPE VI administrative expenditures.

Insufficient documentation to support \$852,727 of claimed expenditures

As of April 30, 1997, \$2,408,928 in costs, other than the administrative payroll costs were charged to the HOPE VI Program. Of \$1,949,750 selected for review, neither the PHA nor the Elm Haven Home Partnership (EHHP) could furnish sufficient documentation and support to justify 44 percent (\$852,727) in claimed expenditures.

Entities	Amount Disbursed	Amount Unsupported
Elm Haven Homes Partnership (EHHP)	\$ 890,772	\$249,747
Tise, Hurwitz & Diamond, Inc. & Jones Architects, Inc. (TH&D)	509,401	298,771
Dunhill Personnel of NH (DPNH)	242,393	-0-
Elm Haven Resident Council, Inc. (EHRC)	219,839	216,864
Greater New Haven Business & Professional Association, Inc. (GNHBP)	51,470	51,470
Leadership, Education and Athletics in Partnership (LEAP)	35,875	35,875
Total	\$1,949,750	\$852,727

Five deficiencies were noted

Five general deficiencies were noted:

- There was a lack of financial information and/or documentation at the PHA or the EHHP to support the amount expended by five of the six entities reviewed (EHHP, TH&D, EHRC, GNHBP, & LEAP).

- Audited or certified financial statements required by the Subgrant Agreements were not located at the PHA or the EHHP for three of the six entities reviewed (EHRC, GNHBP, & LEAP).
- Program results were either not documented or insufficient to determine if the grant monies expended were beneficial for three of the six entities reviewed (EHRC, GNHBP, & LEAP).
- \$30,000 was disbursed to EHRC as part of a \$100,000 revolving loan, but there is no indication these funds were used for the intended purpose or if any repayments have been made to the PHA. In addition, this advance was classified as an expense on the PHA's books rather than as a receivable thus accountability was lost.
- A temporary employment agency was utilized to process the payroll of some of the HOPE VI Program workers, resulting in the PHA being charged a mark-up of approximately 37 percent which is not considered reasonable and necessary.

Details describing the above deficiencies are contained in Appendix B.

Monitoring responsibility shifted without an executed contract

The PHA transferred the responsibility of monitoring the HOPE VI Program to the EHHP. According to the EHHP's Program Director and Supportive Services Coordinator, this responsibility was turned over in August 1996. Although the responsibility was turned over to the EHHP, there is no executed contract between them and the PHA. The shifting of such a major responsibility without an executed contract provides little assurance that the HOPE VI Program is adequately protected and controlled. There have been several drafts submitted to HUD for approval, however no final contract has been executed. The latest draft, dated March 19, 1997, is still under review at HUD Headquarters.

The EHHP is requisitioning funds for performing tasks under this unexecuted contract based upon two HUD letters, dated September 16, 1996 and December 10, 1996. In these letters, HUD provides that they would release a limited amount of funds (\$5.3 million of the \$45 million) to carry out pre-development activities, even though they were not approving the contract at that time.

The HUD HOPE VI Program Grant Manager advised that the fault for the Agreement not being executed lies with

HUD and not the PHA or the EHHP. As of July 15, 1997, HUD made the execution of the Agreement a priority, but it is still unknown when finalization will occur. The Default Resolution Plan dated August 21, 1997 proposes the dissolution of the EHHP contract. The plan is currently being reviewed by HUD.

Subgrantee contract lacks sufficient controls

The current HOPE VI Program Subgrantee Contract (in use as of January 1997), which is executed between a Subgrantee and the EHHP, does not provide the EHHP sufficient fiscal and monitoring controls to ensure the funds are expended in a reasonable, proper, and eligible manner, and that program goals have been or will be accomplished. More specifically, the Contract does not require the Subgrantee to submit any detail program information during the course of the contract term, such as cost statements, certified financial statements, or quarterly and year-end performance reports. Without these documents it becomes difficult to determine if the funds are expended in a reasonable, proper, and eligible manner, or that program goals have been or will be accomplished.

The prior Subgrantee Contract, executed between a Subgrantee and the PHA, required the above documents, among others, to be submitted to ensure the funds were expended in a reasonable, proper, and eligible manner. That Subgrantee Contract was terminated in January 1997 when the current contract was developed and the HOPE VI Program responsibility was shifted to the EHHP.

City matching funds not identified

The PHA and the EHHP were not accounting for the matching funds provided by the City of New Haven for supportive services. The HOPE VI Grant Agreement, Article VIII, provides:

"The Grantee will use best efforts to cause the City in which the Grantee is located to provide contributions for supportive services in an amount equal to 15% of the HOPE VI grant funds awarded to the Grantee for supportive services under the Revitalization Plan."

The Grant Agreement, Article XIII paragraph 1(c), further provides:

"The Grantee will keep records...which fully disclose the cost or other value of all in-kind non-Federal contributions towards the supportive services match required by Article VIII."

The EHHP's Supportive Services Coordinator has taken

action to begin accounting for the matching funds. As of March 31, 1997, the Supportive Services Coordinator calculated \$5,474 in matching funds provided by the City of New Haven.

* * * * *

Control systems need to be established

The inadequate control and accountability systems are a direct manifestation of the PHA's inability to effectively manage and account for its federal funds. The PHA needs to provide evidence that control systems are in place and functioning effectively to account for current HOPE VI Program expenditures and also to verify that past expenditures and allocations are eligible and chargeable to the HOPE VI Grant.

Corrective actions are beginning

On July 15, 1997 a meeting was held with the PHA, the Connecticut State Office (CSO), HUD Headquarters to discuss concerns of the HOPE VI Program. The PHA has replaced its Executive Director with a temporary consultant and is in the process of replacing and realigning its staff resources. The PHA advised that certain corrective actions have been taken and other corrective actions are in the process of being taken.

Controls over subgrantees are being initiated

The PHA advised that they are initiating efforts to ensure sufficient controls by the EHHP over the Subgrantees are being put in place so that future grant funds are expended in a reasonable, proper, and eligible manner, and in furtherance of program goals. Contracts are being reviewed for items such as time limits, maximum contract amounts, clearly stipulated performance goals, scheduled amounts for contract payments, and others. The PHA is also implementing controls to ensure the proper documentation is in place when payments are processed.

Detailed review of expenditures initiated

In its September 30, 1997 response to our audit report, the PHA's Interim Executive Director noted:

". . . the (PHA) recognized that deficiencies existed in record retention, documentation and payroll and other allocations. Since these deficiencies came to light and, during the period of HUD review of all HOPE VI expenditures, (the PHA) has implemented internal control procedures which require detailed review of HOPE VI expenditures by (PHA) staff including supporting documentation."

Corrective actions are underway

The response further noted various procedures which were instituted to assure compliance with HOPE VI

requirements. Specific corrective procedures include the following:

- The PHA has discontinued the practice of commingling grant funds.
- The PHA has implemented payroll allocations on a time-spent basis and will allocate only those payroll costs for staff positions which are essential and necessary for administering the HOPE VI grant. The PHA stated that no partial administrative allocations to cover overhead expenses will be made to the HOPE VI program in the future in order to simplify and justify the payroll allocations being made. The PHA agrees that an error was made on this item and steps will be made to prepare a correcting entry upon the completion of an analysis.
- The PHA intent is to perform a high level of review of expenditures to assure compliance and to report and evaluate budget thresholds. The PHA is developing a procedure to monitor obligations and expenditures on a monthly basis through a spreadsheet report that tracks these items against requisitions and LOCCS drawdowns.
- The PHA will renegotiate all subgrantee contracts. The new contracts will be performed based and require monthly reporting to the PHA.
- The PHA and the City of New Haven have committed to identify matching funds by October 22, 1997. The PHA has requested the City to provide a list of programs which contribute toward the 15 percent matching fund requirement. Once this list is developed, a tracking system will be implemented within the PHA to ensure compliance.

In its September 30, 1997 response, the PHA does agree with our assertion regarding insufficient documentation to support expenditures in some cases. However, the PHA states the following disagreements:

- The PHA does not concur that there is insufficient documentation to justify payment of \$231,851 to B/CJ as part of development feasibility costs. The PHA states that this is part of a fixed fee negotiated with HUD and, therefore, the PHA assumed that expenditures made in accordance with this budget were allowable and supportable.

PHA contends payment to B/CJ is adequately supported

OIG's position

After review and consideration of the documentation provided by the PHA, OIG has not changed its opinion. The cost were part of a budget approved by HUD. OIG believes that these line items are an estimate of what could be charged and, if lesser cost is incurred, then actual costs should prevail. OIG has no assurance that the \$231,851 is reasonable because there is no support for the amount other than a budget estimate.

PHA considers development agreement executed

- The PHA states that although the development agreement with EHHP has never been fully approved by HUD, the PHA considers the agreement executed and assumes that HUD has provided the approval to perform under the contract. The PHA considers the agreement executed based on two HUD letters dated December 10, 1996 and March 28, 1997, which allows the PHA and EHHP to perform certain tasks under the agreement and also releases limited funds to perform these tasks.

OIG's position

OIG does agree that the two letters do release limited funds to perform certain tasks. However, the fact remains that the agreement was never fully executed and approved by HUD. OIG recognizes that the fault for the agreement not being executed possibly lies with HUD and not the PHA or EHHP. Never the less, this condition needs to be corrected.

Additional documentation submitted

- The PHA submitted documentation in support of the costs incurred by the Greater New Haven Business & Professional Association, and Leadership, Education and Athletics in Partnership.

OIG's position

OIG already had obtained the documentation submitted during our review. Therefore, our opinion the PHA does not have adequate support for these charges has not changed.

Requested information was supplied

In its September 30, 1997 response, the PHA requested certain information of OIG to assist them in their research for supporting documentation. The information requested was sent to the PHA on October 8, 1997.

OIG recognizes that the PHA has taken steps to initiate a system of internal administrative and management controls. However, we believe that additional assurances are necessary to assure that systems implemented remain effective to protect HUD's interests.

Recommendations

We recommend that:

- 1A. The PHA establish fiscal accountability and effective Management controls that will assure that scarce Federal funds are used effectively and efficiently;
- 1B. The PHA obtain financial documentation from the appropriate Subgrantees and determine the reasonableness and eligibility of all costs;
- 1C. Subgrantees be instructed to return all funds that cannot be supported as eligible and reasonable HOPE VI Program costs; and
- 1D. A determination be made as to whether the HOPE VI Grant should be terminated because of the PHA's inability to account for and control its Federal funds.

Internal Controls

In planning and performing our audit, we considered the internal controls of the Housing Authority of the City of New Haven (PHA), specifically for its HOPE VI Grant Program (HOPE VI Program), in order to determine our audit procedures and not to provide assurance on internal controls.

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

We determined that administrative and accounting controls in the following areas were relevant to our audit objective:

- Financial Controls over Program Funds
- Management Review and Approval of Expenditures
- Allocation of Costs

Significant internal control weaknesses

A significant weakness exists if internal 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 reports.

Assessment results

Our review identified significant weaknesses in all three categories and over the PHA's ability to administer the HOPE VI Program. These weaknesses are described in the finding section of this report.

Schedule of Unsupported Costs

<u>Finding</u>	<u>Unsupported (1)</u>
Cost other than administrative payroll	\$852,727
1.	Unsupported amounts do not obviously violate law, contract, policy, or regulation, but warrant being contested for various reasons, such as the lack of satisfactory documentation to support eligibility and HUD approval.

Disbursements Deficiencies

Elm Haven Homes Partnership (EHHP)

Review of \$890,772 in disbursements, which included \$449,589 disbursed subsequent to April 30, 1997, disclosed: \$231,851 in Development Feasibility Costs are not supported; \$17,896 in various charges had no supporting invoices, and \$7,023 in phone charges could not be verified as relating directly to HOPE VI Program activities. More specifically:

- Development Feasibility Costs, which are part of the developer's, Beacon/Corcoran Jennison Partners (B/CJ), 15 percent fee, are being requisitioned and paid based on budget estimates even though the Agreement to which they pertain (March 19, 1997) has not been approved by HUD. Quadel Consulting Corporation and the PHA staff advised that the costs are a "fixed-fee". These "fees" totalling \$723,500 were budget estimates for 103 specific work tasks.

Although work is being done related to the Development Feasibility Costs, there are no assurances that the costs are reasonable because there is no support for the amount of each line item other than an estimated budget. There is also no guarantee that the development will ever be completed to warrant the developer's fee identified above. The following payments during our review were based solely on the budgeted line item amount:

Requisition Number	Amount
1	\$115,250
2	17,438
3	20,813
4	12,500
5	29,600
6	36,250
Total	\$231,851

- The \$17,896 was incurred by three different entities doing business with the EHHP. Of this total, \$8,544 incurred by two of the entities had no support, and the third entity invoiced costs \$9,352, but there was no supporting information attached.

Tise, Hurwitz & Diamond Architects, Inc. & Jones Architects, Inc.

Review of \$509,401 in disbursements from June 1995 to April 1997 disclosed \$298,771 was not supported by invoices. OIG requested the PHA to obtain the support for the expenditures, but to date no documentation has been provided.

Dunhill Personnel of New Haven (DPNH)

Review of \$242,393 in disbursements from June 1995 to April 1997 disclosed the PHA was charged approximately a thirty-seven percent mark-up for utilizing DPNH as a payroll servicer for various employees working on the HOPE VI Program. The DPNH's Vice-President explained that the mark-up charged was to cover the associated costs of F.I.C.A, Federal and State taxes, and that DPNH made approximately fifty cents on every dollar billed.

The practice of utilizing temporary agencies to provide payroll service adds administrative costs that are not reasonable, necessary nor justified.

Elm Haven Resident Council (EHRC)

Questionable disbursements totalled \$216,864 (\$186,864) in payments to EHRC and \$30,000 in payments to EHRC/Elm Haven Laundry, Inc.). Review of \$189,839 in disbursements from June 1995 to April 1997 disclosed \$186,864 is not supported by invoices; there were no certified or audited financial statements although they were required by the Subgrant Agreements, and program results for the Subgrant Agreements entered into between the PHA and EHRC were not documented. More specifically:

- The following \$186,864 in payments to EHRC are not supported at the PHA and/or the EHHP level:

Amount	Basis for Disbursement
\$60,000	Memorandum - November 12, 1992
\$40,000	Subgrant Agreement - December 4, 1995
\$18,600	Subgrant Agreement - Unsigned
\$19,350	Letter Dated November 27, 1995
\$ 465	IRS Form 8718 - User Fee for Exempt Organization Determination Letter Request
\$ 6,541	Unsigned and Undated Letter
\$41,908	No Documentation to Support Disbursements

- Audited or certified financial statements required by the Subgrant Agreements (Section D - Covenants and Conditions, No.2) entered into between the PHA and the EHRC were not located at the PHA and/or the EHHP for the following Agreements:
 - December 4, 1995 in the amount of \$40,000
 - Undated, in the amount of \$18,600
- Program result reports for the Agreements entered into between the PHA and the EHRC were not located at the PHA and/or the EHHP level. Therefore, it could not be determined if the grant money advanced was beneficial for the following Agreements:

- November 12, 1992 in the amount of \$60,000
- December 4, 1995 in the amount of \$40,000
- Undated, in the amount of \$18,600

In addition, the EHRC received a \$30,000 loan from the PHA. This loan was to benefit Elm Haven Laundry, Inc., but there is no assurance that these funds were utilized for the laundromat or that any repayments have been made to the PHA. Further, the PHA lost accounting control of this loan because the amount is classified as an expense on the PHA's books rather than an advance.

Although the PHA and/or the EHHP could not provide sufficient documentation regarding the above areas it is possible that the EHRC may have sufficient documentation. However, it is the PHA's responsibility to monitor its Subgrantees to ensure that proper documentation is available to support program costs and to detail program results, and copies of such documentation should be kept at the PHA and/or the EHHP.

The PHA acquired a key to the office of the EHRC in July 1997 and requested the EHRC's leadership to furnish various records to address the above concerns. No documentation was provided and it's the PHA's belief that any documentation that may have been available was destroyed.

Greater New Haven Business & Professional Association (GNHBP)

Review of \$51,470 in disbursements from June 1995 to April 1997 disclosed that the costs are not supported at the PHA and/or the EHHP level. No certified or audited financial statements were provided although they were required by the Subgrant Agreement. Program results for the Subgrant Agreement entered into between the PHA and the GNHBP were not documented.

Leadership, Education and Athletics in Partnership (LEAP)

Review of \$35,875 in disbursements from June 1995 to April 1997 disclosed that the costs are not supported at the PHA and/or the EHHP level. No certified or audited financial statements were provided although they were required by the Subgrant Agreement. Program results for the Subgrant Agreement entered into between the PHA and LEAP were not documented.

Appendix C

Auditee Comments

Distribution

Assistant Secretary for Public and Indian Housing, P, (Room 4100) (10)
Deputy Assistant Secretary for Public and Assisted Housing Programs, PH, (Room 4204) (1)
Deputy Assistant Secretary for Public Housing Investment, PT, (Room 4238) (2)
Director, Office of Capital Improvements, PTC, (Room 4130) (2)
Director, Office of Budget, ARB (Room 3270) (1)
Director, Budget Division, PAB, (Room 4244) (1)
Director, Housing Finance Analysis Division, REF, (Room 8212) (1)
Director, Office of Public Housing, IEPH (1)
Director, Office of Management and Planning, AMM, Washington Officer Center, Suite 310, 401 Third Street, SW, Washington, DC 20024 (1)
Chief Financial Officer, F, (Room 10166) (1)
Acquisitions Librarian, AS, (Room 8141) (1)
Director, Policy Development Division, RPP, (Room 8110) (1)
Special Assistant, Office of Public Affairs, WR, (Room 10236) (1)
Departmental Audit Liaison Officer, FOI, (Room 10176) (1)
Audit Liaison Officer, Assistant to the Deputy Secretary for field Management, SDF, (Room 7112) (1)
Assistant Director in Charge, US GAO, 820 1st St. NE Union Plaza, Bldg. 2, Suite 150, Washington, DC 20002 (1)
Inspector General, G, (Room 8256) (1)
Secretary Representative, 1AS (2)
Public Affairs Officer, New England, 1AS (1)
Connecticut State Coordinator, 1ES (1)
Field Comptroller, Illinois State Office, 5AF (1)

Ms. Cindy Sprunger, Sub Committee on General Oversight & Investigations, Room 212, O'Neill House Office Bldg., Washington, DC 20515 (1)

Mr. Pete Sessions, Government Reform and Oversight Committee, Congress of the United States, House of Representatives, Washington, DC 20515-4305 (1)

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, United States Senate, Washington, DC 20510-6250 (1)

The Honorable John Glenn, Ranking Member, Committee on Governmental Affairs, United States Senate, Washington, DC 20510-6250 (1)

Michael Zegera, Public Affairs Officer G, (Room 8256) (1)

HUD OIG Webmaster (1)