



Audit Report

District Inspector General for Audit New England District

Report: 98-BO-249-1004

Issued: May 7, 1998

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

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

SUBJECT: City of New Haven
Community Housing Corporation (Subgrantee)
New Haven, Connecticut

We performed a review of the Subgrantee, Community Housing Corporation, (CHC) use of HUD funds and the FHA Single Family Insurance Programs pertaining to the acquisition, rehabilitation and sale of properties in the City of New Haven.

The objectives of the audit were to determine whether CHC was operating its programs in an economical and efficient manner and whether adequate safeguards were in place to assure compliance with HUD Program requirements.

This report contains one finding. We are recommending that the City evaluate the Subgrantee's performance to assure the accountability of program funds and institute controls to assure the program is cost effective.

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

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

Executive Summary

We performed an audit of the City of New Haven's (CITY) housing programs as operated through Community Housing Corporation (CHC). The objective of our audit was to determine whether the City of New Haven adequately controlled its Subgrantee to assure federal funds were properly used in a cost-effective manner and the program achieved the desired results.

The City needs to assure its subgrantee, CHC, is meeting the contract obligations in an efficient and effective manner and achieving the desired results. Our review disclosed that while rehabilitation work on the 19 properties we inspected meets standards, there were operational deficiencies at CHC which are detrimental to achieving the program goals of providing affordable housing to low- or moderate income persons. CHC is not operating in a cost effective and efficient manner and is not safeguarding federal funds. Deficiencies include, inadequate accounting records; lack of proper cost documentation for acquisition and rehabilitation of the properties; undisclosed related party transactions; excessive holding periods for properties; and questionable charges. These deficiencies result in higher program costs and do not benefit the City's residents as intended by the program.

We are recommending that you instruct the City to evaluate the Subgrantee's performance and recover any misspent HUD funds. The City needs to assure that the Subgrantee is operating in accordance with the contracts, in an efficient and cost-effective manner.

On March 27, 1998, we furnished the Mayor of the City of New Haven a draft copy of our audit report. The Mayor advised that an exit conference was not necessary. On May 1, 1998, the Mayor acknowledged the factual accuracy of the findings in the audit report. The Mayor advised that the City will hire an outside accounting firm to design a compliance protocol and implementation program for the City to administer this program. In addition, the City is immediately suspending any future funding of CHC until all issues raised by the audit are resolved.

We have included excerpts of the Mayor's response in the finding section of this report. The Mayor's full response is included as Appendix 2 of this report.

Table of Contents

Management Memorandumi

Executive Summary.....ii

Table of Contentsiii

Introduction..... 1

Finding and Recommendations

 1. The City of New Haven Needs to Evaluate
 CHC’s Activities7

Internal Controls.....28

Appendices

 1. Schedule of Property Universe as of 3/1/9829

 2. Auditee Comments31

 3. Distribution32

Abbreviations:

CHC	Community Housing Corporatio
FHA	Federal Housing Administration
City	City of New Haven
CDBG	Community Development Block Grant
CPA	Certified Public Accountant
DBA	Doing Business As
ESSG	Energy Shelter Grant
HOPWA	Housing Opportunity for Persons with Aids
HUD	Department of Housing and Urban Development
ICDC	Inner City Development Corporation
IOI	Identity of Interest
ICDC	Inner City Development Corporation
LCI	Livable City Initiative
OHND	Office of Housing and Neighborhood Development
OIG	Office of Inspector General
UDA	Urban Development Associates
UDAG	Urban Development Action Grant

Introduction

Funds Provided

Since June 1992, HUD provided the City over \$34 million through the various HUD programs:

FISCAL YEAR	CDBG	HOME	ESG	HOPWA	TOTALS
1992	\$3,958,000	\$0	\$0	\$0	\$3,958,000
1993	\$4,371,000	\$0	\$0	\$0	\$4,371,000
1994	\$4,813,000	\$0	\$0	\$0	\$4,813,000
1995	\$5,278,000	\$1,470,000	\$174,000	\$0	\$6,922,000
1996	\$5,175,000	\$1,509,000	\$134,000	\$403,000	\$7,221,000
1997	\$5,132,000	\$1,471,000	\$134,000	\$969,000	\$7,706,000
TOTALS	\$28,727,000	\$4,450,000	\$442,000	\$1,372,000	\$34,991,000

CDBG - Community Development Block Grant

ESG - Energy Shelter Grant

HOPWA - Housing Opportunities for Persons with AIDS

In addition, the City has received \$5 million from the Section 108 fund for the purpose of Housing Rehabilitation.

Community Development Block Grant (CDBG)

The CDBG program provides annual grants for use of a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. The grantees develop their priorities and activities. Grantees must ensure that each activity meets one of the program's three national objectives: the primary objective of benefiting low-and moderate-income persons; aid in the prevention or elimination of slums or blight; or meet other community development needs that present a serious and immediate threat to the health or welfare of the community.

The Home Program - Home Investment Partnerships

The HOME Program provides funds to States and local governments to implement local housing strategies designed to increase the supply of housing for low-income persons. All HOME-assisted housing and rental assistance is targeted for low-income families, with deeper targeting required for rental housing.

Section 108 Loans

Section 108 is the loan guarantee provision of the CDBG program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large scale physical development projects.

Section 203(k) Mortgage Insurance

The Section 203(k) program is HUD’s primary program for the rehabilitation and repair of single family properties. HUD insures rehabilitation loans processed by private lenders which can be used to (1) finance rehabilitation of an existing property; (2) finance rehabilitation and refinancing of the outstanding indebtedness of a property; or (3) finance purchase and rehabilitation of a property. In 1995, HUD Section 203(k) program regulations were revised to allow non-profit organizations to participate, as homeowners.

The City’s Administration of HUD Funds

The Office of Housing and Neighborhood Development (OHND) administered the HUD funds through 1996. As part of the City's reorganization, in 1996, the City abolished OHND and replaced it with the Livable City Initiative office (LCI). LCI is responsible to carry out the City’s comprehensive and strategic program to address the housing problems in the City of New Haven. LCI operates various programs through its staff and contracts various functions to non-profit entities. The City contracted with 14 non-profit entities which use HUD funds for acquiring and renovating housing. These non-profit entities are:

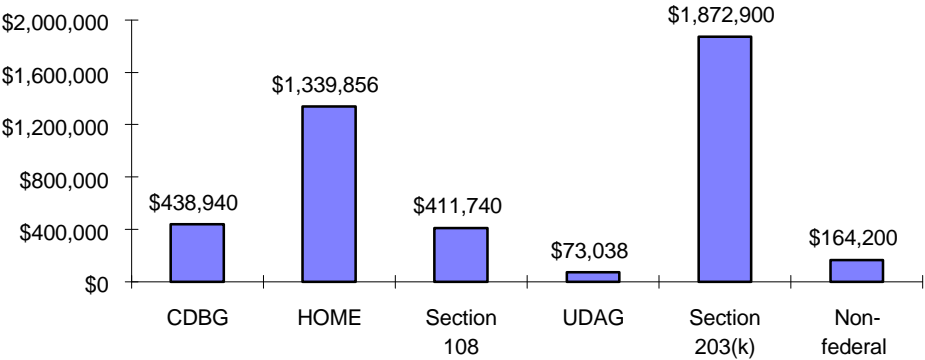
NONPROFIT ENTITIES
Community Housing Corporation (CHC)
Dixwell Community Development Corporation
Edgewood Elm Housing, Inc.
Fair Haven Development Corp.
Greater New Haven Community Loan Fund
Habitat for Humanity of New Haven
Hazel Street Development
Hill Development Corporation
HOME, Inc.
Mutual Housing Association
Neighborhood Housing Services
New Life Corporation
Newhallville Restoration
West Rock Development Corporation

Community Housing Corporation

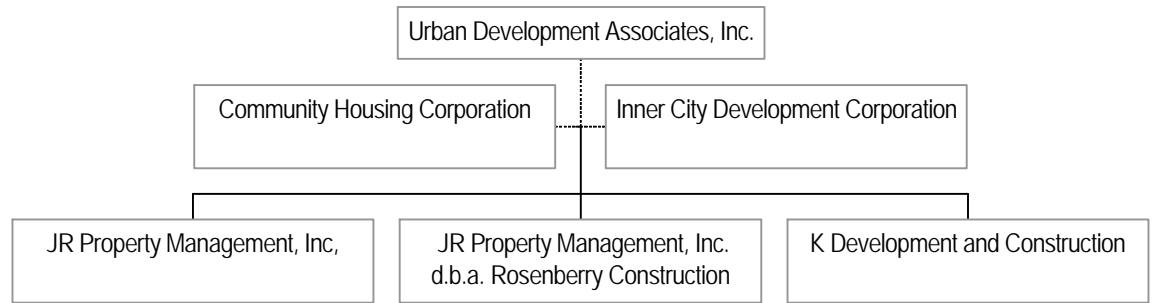
The City contracted with CHC, formerly known as Inner City Community Housing Corporation, to carry out part of its housing programs. CHC’s mission is to provide housing to low and moderate income households in the Greater New Haven Area. To accomplish this mission, CHC entered into agreements with the City for CDBG funds and received about \$100,000 each year. The City also signed agreements with CHC in August 1995 to provide HOME funds and in June 1995 to provide Section 108 Loan funds. CHC proposed to acquire and rehabilitate single family and multifamily properties using the CDBG funds for developing, marketing, preliminary underwriting, and counseling on the identified properties. CHC proposed using HOME and Section 108 Loans funds primarily for acquisition. In conjunction, CHC proposed obtaining mortgage funds, including mortgages insured under the Section 203(k) program, for rehabilitation. After the completing of repairs, CHC would sell the property to low- moderate income persons. In some cases, CHC sold properties “as is” with agreements for rehabilitation contacts and the buyer obtaining the mortgage.

Between July 1992 and February 1998, CHC expended \$4.3 million obtained from the following sources:

Funds expended on CHC properties



In addition, CHC and its for-profit affiliate, Inner City Development Corporation, conducts various housing operations for the State of Connecticut. Urban Development Associates, Incorporated, a Consultant, administers CHC and Inner City Development operations. Urban Development Associates, Incorporated is the owner of JR Property Management, Inc.; JR Property Management, Inc., d.b.a. Rosenberry Construction; and K Development and Construction. The organization is displayed as follows:



CHC and the Identity of Interest companies (IOIs) own and operate other properties not developed under the City's program. These properties include, Chamberlain Court Apartments, Orchard Hill Apartments, Howard Courts Apartments and Fairmont Height Apartments which are located in New Haven, Connecticut and Glen Oaks Apartments which is located in West Haven, Connecticut. CHC also has acquired and renovated properties in other parts of Connecticut.

Prior to July 1995, CHC identified a qualified buyer and matched them up with a property in the designated area. The buyer selected the property and repairs were completed timely. Properties sold without significant holding costs.

In 1995, CHC revised their plan of operations to take advantage of the change in the Section 203(k) Program. CHC proposed a plan to combine the soft-second loans (forgivable loans) from the City with the use of Section 203(k) mortgages taken in the name of CHC. The acquisition and rehabilitation would take place before identifying a low-or moderate-income home buyer.

The City awarded CHC contracts for HOME funds and Section 108 loans in August and June 1995 respectively. At that time, CHC became active as a speculator and in the Section 203(k) program. CHC purchased 19 properties and used Section 203(k) insured mortgages for rehabilitation of the property without identifying, in most cases, a qualified buyer. CHC selected an IOI contractor who developed work write-ups and performed the rehabilitation work. In several cases, another IOI Company collected rents from tenants living in the units.

The Section 203(k) program allows for one to five of mortgage payments to be charged against the mortgage proceeds. When properties do not sell within a short time period, holding costs begin accumulating thereby inflating total program costs.

Problems With A Subgrantee Reported to HUD

A local television station reported that renovations made to homes under CHC's program using HUD funds were of poor quality that the homes were marginally habitable. Representatives from the television station met with the HUD Secretary's Representative for New England to discuss the problems found. Based on this meeting, the HUD Secretary's Representative asked us to review the programs. The documentation provided by the television crew and data obtained from the HUD State Office confirmed that HUD funds were used at the properties identified by the news crew. The properties questioned were:

- 40 Orchard Street
- 588 Howard Avenue
- 89 Wolcott Street

From January through July 1997, the Board of Aldermen - Joint Committee of Community Development and Human Resources held a series of meetings to discuss the reported problems. The Controller and the Corporate Counsel for the City of New Haven also conducted an internal review of the LCI files for these properties. The Joint Committee recommended that CHC and the homeowners should work out an acceptable resolution of the problem. Since the City had reviewed these cases, we did not include a review of these properties in our audit, but concentrated our review on the CHC's operations and the use of HUD funds.

Audit Objective

The objective of our audit was to review the City of New Haven's Subgrantee, CHC's program as it pertains to the acquisition, rehabilitation and sale of properties in conjunction with HUD funds and FHA insured programs. During our review, the Mayor of New Haven requested that OIG review the City's procedures to ensure New Haven is in compliance with all regulations pertaining to loans to non-profits and homeowners and the program is cost-effective and beneficial to the citizens of New Haven.

Scope & Methodology

We obtained a schedule from the City identifying funds disbursed to CHC for various properties involved with the programs. According to the schedule, the City released HUD funds for 72 properties between July 1992 and July 1997. We prepared a schedule of property universe from the information available at CHC and the City as well as information obtained from the law firm handling the closings. We reconstructed the data to identify the universe from the best available data.

Our initial review included 54 property files handled by CHC for the City. We refined our sample to cover these 33 properties (see listing of properties in Appendix 1). Only 33 of these 54 properties used HUD-related funds (HOME, Section 108 Loan or UDAG), after June 30, 1995, for the acquisition of the properties. CHC obtained Section 203(k) insured mortgages for 19 of the 33 properties.

We inspected 15 properties in various stages of development in the current inventory and four properties processed before June 1995 with mortgages insured under the Section 203(b) program.

We reviewed the City files relating to the activities at CHC including the CDBG program, HOME funds and Section 108 Loan funds. We interviewed appropriate City, CHC and related companies personnel. We also obtained the records identifying the various individuals involved with the entities engaged in the transactions.

We also contacted the servicing mortgage companies to obtain the loan status of the HUD insured properties.

Our audit period was generally July 1995 to January 1998; however, where necessary, we expanded the audit period. We performed the audit field work from July 1997 through January 1998. We conducted the audit in accordance with generally accepted government auditing standards.

Finding

The City of New Haven Needs To Evaluate CHC’s Activities

The City of New Haven (City) needs to evaluate its subgrantee Community Housing Corporation’s (CHC) performance and practices. The City needs to ensure that funds provided to CHC are being used in an efficient and effective manner to meet the program’s objectives. The goals of the City's housing program are to preserve and rehabilitate the existing housing stock and improve access to homeownership for low and moderate income families. Since January 1995, CHC has received over \$4.3 million in Federal funds and FHA mortgages. During this time, the City has provided CHC over \$2.3 million to acquire and rehab homes, and continues to fund CHC, without assurance that CHC is efficiently and effectively implementing the housing programs. Further, HUD/FHA is at risk of paying out \$710,250 in Section 203(k) Rehabilitation Mortgage Insurance proceeds if CHC does not clear the defaults on seven of its mortgages.

Our review disclosed weaknesses in CHC’s performance and administration of its housing program. Specifically, we found that CHC:

- Is not operating in an efficient and effective manner.
- Has not established adequate accountability over \$2.3 million in HUD grant funds and \$1.8 million in Section 203(k) funds provided to support the City’s housing program.
- Is not achieving desired housing results;
- Is contributing to higher program costs by the use of Identity-of-Interest companies; and
- Is using Federal funds for related party transactions and purposes other than those intended.

CHC Activity

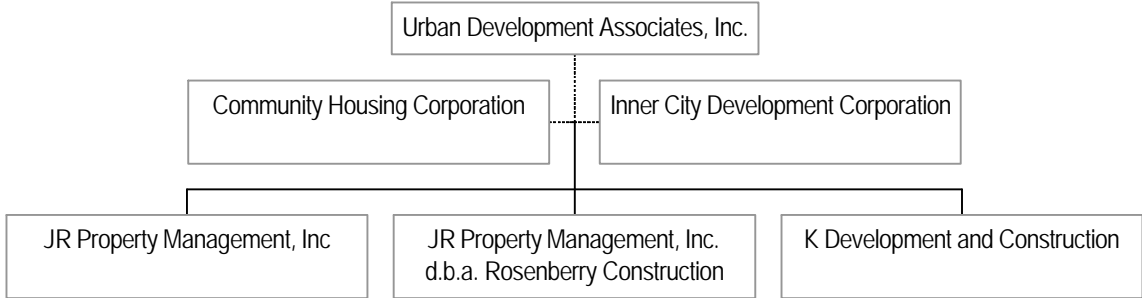
For the period of January 1995 to December 1997, CHC requested funds to acquire 27 single family and six multifamily properties utilizing federal funding provided through the City of New Haven. As of March 1, 1998, CHC received over \$4.3 million for this purpose.

Source	Purpose	Amount
--------	---------	--------

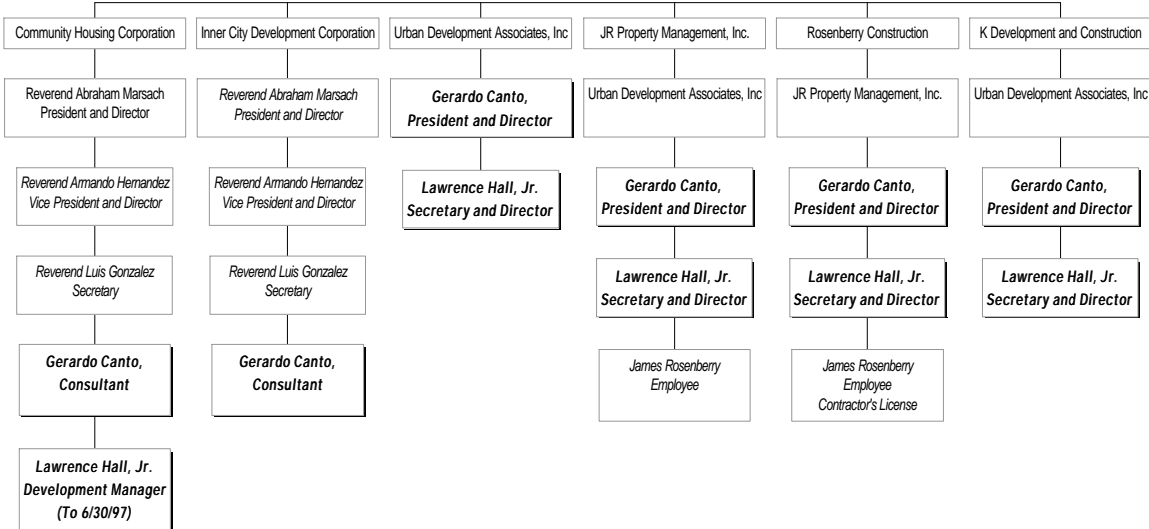
HOME	Acquisition and Rehabilitation	\$ 1,339,856
Section 108	Acquisition and Rehabilitation	\$ 411,740
UDAG	Acquisition and Rehabilitation	\$ 73,038
Other	Acquisition and Rehabilitation	\$ 164,200
Section 203(k)	Acquisition and Rehabilitation	\$ 1,872,900
CDBG	Administration	\$ 438,940
Total		\$ 4,300,674

CHC and its Company Relationships

CHC and its affiliate Inner City Development Corporation (ICDC), a for-profit company, are operated by Urban Development Associates, Incorporated (UDA), a paid consulting company. CHC contracted with UDA to assist in the acquisition and sale of single family and multifamily properties for CHC, develop rehabilitation work write-ups and present offers to lending institutions. UDA is the owner of JR Property Management, Inc., JR Property Management, Inc. d.b.a. Rosenberry Construction and K Development Corporation. JR Property Management collects rents, performs general property management and repairs for the CHC-owned properties while Rosenberry Construction and K Development and Construction performed the majority of the rehabilitation on these properties.



As illustrated below, two individuals, the President and Secretary of UDA, control the operations of all the IOI companies doing business under the City’s housing programs.



Rosenberry Construction, K Development and Construction, JR Property Management, and Urban Development Associates (UDA) operate from the same office building in New Haven as CHC and Inner City Development Corporation. All these companies share the same address, telephone system and administrative staff. There is no separate office space set-aside for CHC.

CHC Did Not Achieve Desired Housing Results

Excessive Holding Period Of Properties

The CHC did not efficiently or effectively carry out its housing program. The purpose of the program is to purchase, rehabilitate and sell homes to persons of low and moderate incomes. CHC was unable to find qualified buyers on a timely basis. This Program is resulting in increased costs to the government and decreasing the availability of scarce funds for further development.

CHC requested funding from the City of New Haven to purchase 27 single family and six multifamily properties. As of March 1, 1998, the status of the 33 properties acquired is as follows:

Status	Single Family	Multifamily	Total	Percent
Sold	14	0	14	42.4%
Awaiting Sale	9	0	9	27.3%
Newly Purchased	0	3	3	9.1%
Never Purchased	3	1	4	12.1%
Office/Rental Unit	1	2	3	9.1%
Total	27	6	33	100.00%

CHC purchased 23 single family properties for the purpose of selling them to low-moderate income persons and one property for commercial and rental purposes. The multifamily properties were acquired for ownership and rental operation rather than resale. As depicted below, CHC has been unable to sell its properties timely, holding some properties for over two years.

Holding Period of Sold CHC Properties From Date of Acquisition				
Property Address	Total Funding	Date Acquired by CHC	Date Sold by CHC or 3/1/98	Days Held By CHC to Day Sold or 3/1/98
211 Fitch	\$ 84,950	04/30/95	11/28/95	212
89 Wolcott	\$ 118,407	01/10/95	11/28/95	322
344 Blatchley	\$ 202,095	06/30/95	04/09/96	284
10 Kensington	\$ 60,400	03/31/95	10/07/96	556
288 Exchange	\$ 172,590	06/30/95	11/06/96	495
588 Howard	\$ 224,535	01/31/96	12/30/96	334
59 Redfield	\$ 53,400	08/19/96	01/17/97	151
68 James	\$ 164,000	06/30/95	09/30/97	823
Total/Average Sold Properties	\$1,080,377			397
Holding Period of Unsold CHC Properties From Date of Acquisition				
242 Shelton	\$ 185,159	6/30/95	Unsold	975
75 Norton	\$ 176,476	8/10/95	Unsold	934
153 Lloyd	\$ 152,313	8/17/95	Unsold	927
168 Wolcott	\$ 103,245	8/17/95	Unsold	927
268 Peck	\$ 148,343	8/31/95	Unsold	913
67 Clay	\$ 132,269	2/01/96	Unsold	759
150 Shelton	\$ 137,931	1/31/96	Unsold	760
120 Greenwood	\$ 14,000	9/26/96	Unsold	521
233 Blatchley	\$ 12,500	4/15/97	Unsold	320
Total/Average Unsold Properties	\$1,062,236			782
Grand Total/Average	\$2,142,613			601
This chart excludes six properties sold the same day as purchased.				

Of the twenty-three single family properties that were purchased by CHC, nine remain unsold. Many of the unsold properties have been in CHC's inventory for over 2 ½ years. The average holding period for all the properties is 601 days. However, the average holding period to March 1, 1998 for the nine unsold properties is 782 days or 26 months. In order to be effective and cost efficient, the program, as designed by the consultant, requires that the properties be sold within five months from the date of obtaining the 203(k) insured mortgage. Generally, the date the property was acquired by CHC (as shown in the above table) is also the date of the 203(k) insured mortgage.

Program Changes Allowed Speculation by CHC

Prior to July 1995, CHC's housing program operated on a much smaller scale. CHC would identify a qualified buyer and match them with a property. At that time the program worked well, because prospective homeowners selected the property and repairs and the sales were completed timely. There were no significant holding costs as property turnover was rapid. Operating under this method, the program basically guaranteed success.

In 1995, HUD regulations began permitting non-profits to participate as homeowners in the Section 203(k) Rehabilitation Insurance Mortgage Program. CHC became a eligible non-profit mortgagor under the program in July 1995. CHC changed their method of operations to take advantage of the change in regulations. Thereafter, CHC's housing program expanded to a larger scale and began to involve speculation in the market. As the City awarded additional funds, CHC began purchasing many properties using HOME funds for the acquisition and obtaining HUD-insured Section 203(k) loans for the rehabilitation. CHC's plans were to then sell the properties to qualified low and moderate income buyers who had not been previously identified. CHC did not have buyers for the properties at the time of purchase as they did under the pre-July 1995 program. CHC also began purchasing properties and selling them "as is" to qualified buyers. CHC, would also assist the "as is" buyer in selecting the IOI contractor to do the rehabilitation work.

City Awarded Funding For Property Acquisition In Unstable Real Estate Market Without Evaluating On Going Performance

While the goal of increasing homeownership opportunities for low and moderate persons is certainly a worthy one, we have concerns that the City was willing to award CHC funds and continuously increase the funding for the acquisition of the properties considering that the real estate market in New Haven in 1995 was not strong and was uncertain. For example, according to a May 25, 1995 independent appraisal of 344 Blatchley Avenue in New Haven (a CHC-purchased property), the appraiser stated:

“After analysis of the local real estate market it is apparent that in certain areas, and in certain sub-markets, there is an oversupply of properties for sale. The predominant marketing time is approximately six (6) to eight (8) months...Property values in New Haven continue to decline due to the sluggish economic climate, oversupply of homes for sale and foreclosure sales and listings in the subject’s market area.”

Yet given what the appraiser stated, the City provided CHC over \$70,000 in HOME funds for this property and received a Section 203(k) HUD-insured loan of \$132,000. This property was actually one of the faster sellers, selling in 9 ½ months since the buyer was pre-qualified as an eligible purchaser. The slow rehabilitation start date on this property is what held-up the property sale. However, many of the properties took much longer to sell and are now requiring the City to fund mortgage payments. Given the condition of the real estate market in New Haven at the time, it should have been foreseen that CHC was going to have long holding periods which increase carrying costs. Yet, we have no evidence that the City took this into consideration when awarding funding to CHC.

Longer Holding Period Result In Higher Costs

Due to the excessive holding periods, CHC requested HOME funds from the City for the monthly mortgage payments on properties insured under HUD’s Section 203(k) program. As exhibited below, the City provided CHC \$145,143 in HOME funds to make monthly mortgage payments in order to avoid default and possibly foreclosure. However, even with this influx of funds, seven HUD-insured properties are currently in default and in fear of foreclosure. The defaults on these seven properties total \$128,146 at March 1, 1998.

203(k) Mortgage Payments Made With Home Funds			
Property Address	Period Mortgage Payments Made	Number of Mortgage Payments Made	Total Mortgage Payments With HOME Funds
211 Fitch	10/95-11/95	2	\$ 1,850
344 Blatchley	11/95-4/96	5	\$ 10,125
68 James	10/95-11/96	14	\$ 13,976
242 Shelton*	11/95-11/96	13	\$ 15,495
75 Norton*	10/95-11/96	14	\$ 19,367
288 Exchange	11/95-10/96	12	\$ 14,273
268 Peck*	11/95-11/96	13	\$ 15,344
168 Wolcott*	10/95-11/96	14	\$ 12,445
153 Lloyd*	10/95-11/96	14	\$ 16,314
89 Wolcott	10/95-11/95	14	\$ 1,857
588 Howard	6/96-11/96	6	\$ 10,997
150 Shelton*	6/96-11/96	6	\$ 7,131

203(k) Mortgage Payments Made With Home Funds			
Property Address	Period Mortgage Payments Made	Number of Mortgage Payments Made	Total Mortgage Payments With HOME Funds
67 Clay*	7/96-11/96	5	\$ 5,969
Total HOME Funds Provided to CHC to Make 203(k) Mortgage Payments			\$145,143
* Currently In Default - See Table Below			

CHC has not requested additional funds for mortgage payments since November 1996.

Potential Loss to HUD Insurance Fund of \$710,250

CHC currently owns seven properties in default that may be foreclosed upon by the mortgagee. Before the property can be sold, CHC, will need to payoff the delinquent balances of \$128,146 (3/1/98). If this is not done, HUD could be paying out mortgage insurance proceeds of \$710,250 as the defaulted loans are assigned to HUD.

CHC-HELD PROPERTIES IN DEFAULT					
Property Address	Mortgagee	Acquisition Date	Date of Default	Amount Past Due As of 3/1/98	203(k) Loan Amount
268 Peck	Homeside Lending	08/31/95	02/01/97	\$ 18,569	\$ 98,000
75 Norton	Homeside Lending	08/10/95	02/01/97	\$ 24,412	\$112,150
242 Shelton	Homeside Lending	06/30/95	02/01/97	\$ 19,499	\$109,700
153 Lloyd	Homeside Lending	08/17/95	02/01/97	\$ 17,959	\$101,000
168 Wolcott	Homeside Lending	08/17/95	02/01/97	\$ 14,419	\$ 76,300
150 Shelton	Homeside Lending	01/31/96	04/01/97	\$ 19,125	\$108,800
67 Clay	North American	02/01/96	06/01/97	\$ 14,163	\$104,300
Total Unpaid Installments and 203(k) Loan Amount				\$128,146	\$710,250

Rental Receipts Are Not Being Used To Pay Mortgage For Properties in Default

CHC is not using rental receipts earned on CHC-owned properties in default to make monthly mortgage payments. JR Property Management, an IOI company, collects and keeps the rents earned on the CHC-owned properties. These funds are not reimbursed to CHC and, according to CHC's consultant, are used by JR Property Management for miscellaneous housing costs. We believe that the City

should ensure that accountability is established over rental receipts and that the funds are used by CHC to keep mortgages current.

Due to CHC's inability to find qualified buyers, the program is not successfully meeting its objective of selling rehabilitated housing to low and moderate income persons. In addition, the long holding periods are increasing costs to the City with little benefit. Funds used to pay outstanding mortgages do not increase the value of the property and prevent these funds from being used for the purposes of increasing affordable housing stock.

CHC's Questionable Practices

The City has allowed CHC to engage in practices which are questionable and add unnecessarily to the cost of homes.

Federal Funds Used To Pay Sellers Costs

CHC paid \$208,265 for back taxes and utility charges in federal funds for properties. Usually, past due taxes or water/sewer arrears are the responsibility of the seller and not the buyer. However as shown below, for twelve properties acquired by CHC, it was the buyer (CHC) who paid the past due taxes and charges using limited Federal funds. We found no evidence that these payments were included as part of the acquisition price.

Schedule of Back Charges Paid With Federal Funds				
Property	Date Acquired	Seller	Back Taxes	Back Water & Sewer Charges
344 Blatachley	06/30/95	Conn. Bank Commerce	\$ 4,986	\$1,238
233 Blatchley	04/15/97	Patrick & Nicola Carusone	\$ 2,041	
67 Clay	02/01/96	Branford Savings Bank	\$ 5,000	
120 Greenwood	09/26/96	WPCA of New Haven	\$ 1,902	\$1,858
518 Howard	12/13/96	Peter M. Lerner Committee	\$ 34,777	
588 Howard	01/31/96	Branford Savings Bank	\$ 5,000	
68 James	06/30/95	Conn. Bank of Commerce	\$ 4,986	\$1,238
101 Judith	12/30/97	First Union National Bank	\$ 34,008	
93 Judith	12/30/97	First Union National Bank	\$ 32,406	
171 Quinnipiac	12/30/97	First Union National Bank	\$ 57,294	
242 Shelton	06/30/95	Conn. Bank of Commerce	\$ 15,798	\$ 733
150 Shelton	01/31/96	Branford Savings Bank	\$ 5,000	
Total Back Charges			\$203,198	\$5,067

At least three of the above properties were purchased through foreclosure sales. CHC received a total of \$377,575 in HOME funds for the acquisition of these three properties. The combined foreclosure sale price totaled \$245,500. For these three properties alone, an additional \$123,708 was paid with HOME funds for back taxes. The remaining HOME funds of \$8,367 were used for closing costs.

Property	Home Funds Received	Foreclosure Sales Price	Back Taxes Paid
93 Judith	\$100,678	\$ 70,000	\$ 32,406
101 Judith	\$ 96,623	\$ 55,500	\$ 34,008
171 Quinnipiac	\$180,274	\$120,000	\$ 57,294
Total	\$377,575	\$245,500	\$123,708

The \$123,708 should have been paid by the seller from the foreclosure proceeds and not from HOME funds. With the limited resources available to the City of New Haven for its Housing Rehabilitation programs, the \$208,265 paid for back charges could have been utilized to rehabilitate other housing in the City and benefit a greater number of low- and moderate income families. Payment of these back charges by CHC increases the cost of the program and benefits the seller rather than the City.

Use of Identity-of-Interest Companies Result In Higher Costs

CHC is engaging in transactions which may not be in the best interest of the City or the community. These transactions allow related parties to make profits at the Program's expense and are increasing costs. Our review disclosed that:

- CHC is profiting from sale of properties;
- Inner City Development Corporation (ICDC), an IOI is profiting from sales to CHC; and
- IOI related companies are receiving a majority of the rehab work and are receiving questionable commissions.

Profit on Sale of Properties by CHC Resulting in Higher Costs

Our review disclosed that CHC, and its for-profit affiliate, ICDC, acquired properties using HOME funds and resold them on the same day to low and moderate income persons for a profit. As exhibited below, CHC and ICDC purchased and then re-sold six properties on the same day at a profit of \$105,000. These transactions represent an overall markup of 50 percent.

Profits By ICDC/CHC on Property Sales to Third-Party Using Federal Funds						
Property Address	Acquisition and Sale Date	Acquired By	Acquisition Price	Selling Price	Mark-Up	Percentage Mark-Up
230 Lloyd	02/08/96	ICDC	\$ 17,000	\$ 29,000	\$ 12,000	70.6%
40 Orchard	02/08/96	ICDC	\$ 5,000	\$ 17,500	\$ 12,500	250.0%
92 Kensington	02/26/96	ICDC	\$ 20,000	\$ 29,000	\$ 9,000	45.0%
518 Howard	12/13/96	CHC	\$ 60,000	\$ 75,000	\$ 15,000	25.0%
40 Ward	12/23/96	CHC	\$ 33,500	\$ 45,000	\$ 11,500	34.3%
408 Edgewood	03/31/97	CHC	\$ 75,000	\$120,000	\$ 45,000	60.0%
Total			\$210,500	\$315,500	\$105,000	49.9%

The mark-ups unnecessarily increased the costs to the homebuyer, the City, and to HUD. The higher acquisition cost increased the amount of HOME funds the City provided and increased the amount of the Section 203(k) HUD-insured loans. This type of transaction does not contribute to providing housing at the lowest possible cost.

Inter-Company Trading Profited IOI Company and Increased Program Costs

We found that for an additional thirteen properties, ICDC purchased properties and then transferred them to CHC the same day, for a profit. These inter-company property transfers resulted in mark-ups of as high as 292 percent and netted \$195,311 profit to ICDC. Since these costs will be passed on they will result in higher costs to the homebuyer, the City, and HUD Program.

Inter-Company Property Transfers							
Property Address	Acquired By	Transferred To	Closing Date	Purchase Price	Transfer Amount	Mark-up	Percentage Mark-up
89 Wolcott	ICDC	CHC	01/10/95	\$50,400	\$75,000	\$24,600	48.4%
211 Fitch	ICDC	CHC	04/30/95	\$17,500	\$30,000	\$12,500	71.4%
288 Exchange	ICDC	CHC	06/30/95	\$34,000	\$50,000	\$16,000	47.1%
344 Blatchley	ICDC	CHC	06/30/95	\$49,500	\$56,000	\$6,500	13.1%
242 Shelton	ICDC	CHC	06/30/95	\$69,000	\$75,000	\$6,000	8.7%
68 James	ICDC	CHC	06/30/95	\$36,500	\$42,500	\$6,000	16.4%
168 Wolcott	ICDC	CHC	08/17/95	\$8,500	\$32,500	\$24,000	282.4%

Inter-Company Property Transfers							
153 Lloyd	ICDC	CHC	08/17/95	\$8,500	\$30,000	\$21,500	252.9%
268 Peck	ICDC	CHC	08/31/95	\$58,800	\$58,776	(\$24)	(0.04%)
150 Shelton	ICDC	CHC	01/31/96	\$9,566	\$35,000	\$25,434	265.8%
588 Howard	ICDC	CHC	1/31/96	\$41,430	\$60,000	\$18,570	44.8%
67 Clay	ICDC	CHC	02/01/96	\$23,269	\$45,000	\$21,731	93.4%
338 Grand	ICDC	CHC	05/23/96	\$35,000	\$47,500	\$12,500	35.7%
Total				\$441,965	\$637,276	\$195,311	44.2%

IOI Contractor Received 94 Percent of the Rehabilitation Dollars

Our review disclosed that IOI companies performed almost all the functions relating to the acquisition, maintenance, rehabilitation, rental, and sales of these properties. These companies were selected by CHC without benefit of competition and received the majority of the City-granted funds.

As shown below, Rosenberry Construction Company and K Development and Construction, both owned by UDA, were awarded \$1,488,636 or 94 percent the rehabilitation funds.

Contractor and Cost of Rehab for 21 Rehabilitated Properties		
Property Address	Rehabilitation Contractor	Rehabilitation Amount
344 Blatchley	Rosenberry Construction	\$120,750
338 Grand	Rosenberry Construction	\$171,020
68 James	Rosenberry Construction	\$77,877
75 Norton	Rosenberry Construction	\$70,750
288 Exchange	Rosenberry Construction	\$72,221
10 Kensington	Rosenberry Construction	\$22,500
67 Clay	Rosenberry Construction	\$75,749
92 Kensington	Rosenberry Construction	\$84,873
211 Fitch	Rosenberry Construction	\$47,300
153 Lloyd	Rosenberry Construction	\$97,638
150 Shelton	Rosenberry Construction	\$87,951
40 Orchard	Rosenberry Construction	\$79,166
168 Wolcott	Rosenberry Construction	\$52,277
242 Shelton	Rosenberry Construction	\$84,077
230 Lloyd	Rosenberry Construction	\$86,392
588 Howard	Rosenberry Construction	\$110,227

Contractor and Cost of Rehab for 21 Rehabilitated Properties		
40 Ward	Rosenberry Construction	\$75,368
408 Edgewood	K Development & Construction	\$37,500*
59 Redfield	K Development & Construction	\$35,000*
Total Rehab Dollars to IOI Companies		\$1,488,636
268 Peck	PMG Construction	\$67,090
89 Wolcott	PMG Construction	\$21,895
Total Rehab Dollars to non-IOI Companies		\$88,985
Total Rehab Dollars		\$1,577,621
* Connecticut Housing Finance Authority Funded		

In total nineteen (19) of the twenty-one (21) properties were rehabilitated by these companies. For six of these properties, CHC guided the homebuyer to use these IOI construction companies. There was no evidence that this work was subjected to competition on the open-market. Therefore, there is no assurance that the costs are reasonable. However, based upon our inspections for 15 of these properties, we found that the properties were in compliance with HUD's housing standards and that the rehabilitation work cited was completed.

As discussed in more detail in the Introduction section, a local television station identified three homes, repaired under CHC's program, where renovations were of poor quality. The City reviewed these cases and recommended that CHC and the homeowners resolve the dispute.

IOI Company Received Commissions

UDA, an IOI company, received commissions from the sale of CHC-owned properties. As exhibited below, UDA received a total of at least \$75,295 in commissions from both inter-company and third-party sales of CHC-owned properties when a Section 203(k) loan was involved.

Commissions Paid To UDA	
Property Address	Commissions Paid
Inter-Company Transfers	
344 Blatchley	\$1,680
288 Exchange	\$1,500
211 Fitch	No documentation in file
588 Howard	\$4,200
68 James	\$1,275
89 Wolcott	\$4,500

Commissions Paid To UDA	
67 Clay	\$3,150
338 Grand	\$5,000
153 Lloyd	\$8,500
75 Norton	\$5,600
150 Shelton	\$2,450
242 Shelton	\$2,250
168 Wolcott	\$5,500
268 Peck	\$1,500
Commission from Inter-Company Sales	\$47,105
Sales To Third-Party	
10 Kensington	\$3,990
230 Lloyd	\$6,000
40 Orchard	\$6,000
408 Edgewood	\$7,200
59 Redfield	No documentation in file
92 Kensington	\$5,000
Commission from Third-Party Sales	\$28,190
Total Commissions Paid	\$75,295

On July 1, 1993, CHC signed-off on a proposal for contractual services written by the President of UDA on CHC's letterhead. The contract provided that UDA would assist in the acquisition and sale of single family and multifamily properties for CHC, develop rehabilitation work write-ups and present offers to banks. The Secretary of UDA was also paid by CHC as its Development Manager through June 30, 1997. The Development Manager's duties are to perform various real estate functions for CHC, including purchasing and selling property, identifying financing and coordinating rental and other property management strategies. Since the Development Manager performed most of the work involved with the acquisition and sale of these properties, as evidenced by his signature on documents, there appears to be no justification for the commissions paid to UDA.

Funds Provided to CHC for Properties Never Acquired

Inattention by the City over the releasing of funding to CHC for property acquisition has cost the City money and has tied up scarce financial resources. The following three examples illustrate the lack of oversight by the City over its own operations, as well as over CHC's operations, and shows that CHC's motivation could be to enhance financial profitability to their IOI's rather than improve the City's housing program.

The City of New Haven provided CHC \$87,000 from its CDBG funds for the acquisition of three properties:

Property Address	Date Funds Awarded	Funds Provided
105 Greenwood	8/11/95	\$57,500

151 Butler	4/11/97	\$17,500
254 Grand	2/27/97	\$12,000
Total		\$87,000

These properties were never purchased by CHC, the funds were never recorded on CHC's accounting books, and the funds for 151 Butler and 254 Grand were only returned in October 1997, by CHC, upon request by the City when concerns were raised about these transactions. The City is still awaiting the return of funds for 105 Greenwood. The following is a summary of these three transactions.

105 Greenwood

In August 1995, the City released \$57,500 to CHC for the acquisition and closing costs associated with the purchase of property located at 105 Greenwood Street. The City released the money and CHC purchased the bank note on the property even though the Mayor had directed the Office of Housing and Neighborhood Development (OHND) to withdraw financial support for this property because he believed this building should be demolished. CHC never recorded these funds on their books.

This property was owned by James Rosenberry (previous owner of JR Management and Rosenberry Construction and current employee of JR Management) who had defaulted on the mortgage back in 1991. CHC paid the bank \$45,000 for this note even though in 1986 the payoff amount on the loan was only \$35,000. This may have had to do with the fact that this purchase was tied into a favorable note modification of a \$435,000 mortgage on another property owned by CHC and ICDC (Glen Oaks).

CHC used nearly \$3,000 of the acquisition money awarded by the City for this property for attorney costs relating to the modification of the bank note of Glen Oaks. In addition, CHC paid over \$8,000 to JR Construction. Any rehabilitation work done prior to ownership by CHC should have been paid by the previous owner, not CHC. Had the City reviewed the closing statements, they would have seen that almost \$11,000 of the funds were expended for items not related to this purchase.

Further, CHC never tried to collect from Rosenberry on the mortgage note or did CHC try to foreclose on the property. CHC never acquired the property. Instead, CHC's IOI, JR Property Management, rented out the property and collected rents. The rental receipts were not recorded on CHC's books. Rents on this property were deposited in JR Property Management accounts. It was not until November 1996 that the City's Assistant Corporation Counsel questioned CHC as to why this property was never acquired. In February 1997, CHC wrote to the City requesting demolition of the property by the City because rehabilitation of the property was too costly and later asked the City for forgiveness for the \$57,500. In June 1997, the City demolished the building at a cost of \$19,000. Neither the City nor the

community benefited from this transaction. The only parties that benefited from this transaction were CHC's related companies and the bank.

151 Butler Street

In April 1997, the City issued a check for \$17,500 to CHC for the acquisition and closing costs associated with the purchase of property located at 151 Butler Street. The City owned the property and intended to sell the property to CHC for \$1,000. Despite this, CHC requisitioned \$17,500 the City; \$16,500 more than was needed (less any closing cost) to purchase the property, and the City approved the request. This transaction would have provided CHC with about a 1600 percent profit at the City's expense.

Adding to this, the City's Tax Office intended on holding the \$17,500 in order to satisfy CHC's outstanding tax obligations with the City, but unbeknown to the City, these funds were released to CHC. The funds were never recorded on CHC's accounting books but were held by CHC's attorney in an escrow account. It was not until our Office inquired about this transaction that the City was made aware that the funds were released and that the property was never acquired. In October 1997, CHC reimbursed the City \$17,500.

254 Grand Street

In February 1997, the City released \$12,000 to CHC for the acquisition and closing costs associated with the purchase of a property located at 254 Grand Street. The funds were never recorded on CHC's accounting books but were held by CHC's attorney in an escrow account. It was not until our Office inquired as to why this property was not acquired that the City requested reimbursement by CHC. In October 1997, CHC reimbursed the City \$12,000.

Acquisition of 75 Norton Street Did Not Benefit City But CHC Related Parties

ICDC had a \$166,000 mortgage on 75 Norton Street. ICDC obtained this mortgage on February 18, 1992 for the purpose of acquiring and rehabilitating the property. On August 10, 1995, CHC used federal funds to release ICDC from its mortgage obligations on 75 Norton Street. A deal was configured in such a way, that at the time of CHC closing on two properties, 75 Norton Street (owned by ICDC) and 27-35 Main Street (independently-owned), ICDC would be released from the mortgage on 75 Norton Street. \$145,000 of this mortgage was re-assigned to 27-35 Main Street and ICDC paid-off the remainder of the mortgage for \$21,916.

The selling price for 75 Norton Street was \$80,000. As mentioned, \$21,916 of the \$80,000 was used by ICDC to pay-off the remainder of the loan. This left ICDC

with a profit of over \$58,000 on the sale of this property and possibly more depending upon what the actual payoff balance on the loan was.

On the flip-side, CHC now has a \$145,000 mortgage on 27-35 Main Street. The City provided CHC a HOME grant of \$160,000 for the acquisition of 27-35 Main Street. Had the property purchase not been connected to the sale of 75 Norton, CHC could have used the HOME funds to pay the seller his asking price of \$136,500 and for closing costs. CHC would not have been saddled with a \$145,000 mortgage on this property.

CHC received \$112,150 in Section 203(k) loans and a HOME grant of \$44,959 from the City for the acquisition and rehabilitation of 75 Norton Street. The goals of the City's housing program is to preserve and rehabilitate the existing housing stock. This property, at the time of acquisition, was not in need of rehabilitation, since it had been rehabilitated only three years earlier in 1992. The 1995 rehabilitation done on the property was not to fix-up a run down property, but to convert the building from four-units to a three-units. We believe that this is not is an optimum use of the scarce resources available to the City for housing revitalization. The City could have used these funds to rehabilitate a run-down property thereby providing better and more affordable housing to the City.

The only parties that truly benefited from this transaction were CHC's identity-of-interest companies. For \$21,916 ICDC was released from a mortgage; Rosenberry Construction received \$33,000 from ICDC at the time of closing on 75 Norton Street and an additional \$70,750 from CHC for the rehabilitation of the property; and UDA received \$5,600 from ICDC at closing. Conversely, the City spent \$45,000 in HOME funds for a property that was already benefiting the City and later over \$19,000 to CHC to make its monthly mortgage payments on the 203(k) loan in order to avoid default. Mortgage payments have not been made on this property since January 1997. The property is currently in default and in fear of foreclosure. Unless the mortgage is brought current, HUD may be paying out mortgage insurance proceeds of \$112,150.

City Oversight Over Subgrantees Needs Improvement

Had the City instituted proper safeguards in place to monitor CHC's operations, these limited resources could have been available to revitalize other properties and benefit the citizens of New Haven. While the City requires all fourteen of its housing subgrantees to maintain proper accounting records and supporting data and to maintain separate files identifying activities that were carried out under each program, the City has implemented few procedures to ensure that CHC or any of its subgrantees follow its contracts and properly expend City funds.

The City of New Haven has inadequate controls to ensure that its subgrantees are implementing its housing program in an efficient and effective manner. The goals of

the City's housing program are designed to preserve and rehabilitate the existing housing stock and improve access to homeownership for low and moderate income families. Since January 1995, the City has provided CHC over \$2.3 million to acquire and rehabilitate homes, and continues to fund CHC, without assurance as to whether CHC is efficiently and effectively implementing the housing program.

Contract Requirements

The City enters into a separate contracts with CHC for each specific federal grant: i.e. HOME, CDBG and, Section 108. Although each contract has variations in the terms and conditions, some of the common requirements are that the subgrantee:

1. Establish and maintain fiscal control and accounting procedures which assure the proper accounting of funds and comply with the principles and standards of administering grants contained in OMB Circular A-110 and A-122;
2. Report any income generated as a direct result of the funds to the City and be used in accordance with program requirements; and
3. Maintain adequate supporting data and separate files identifying activities that were carried out under the program.

Our review disclosed that CHC did not adhere to any of the contract requirements and that the City was unaware of CHC's non-compliance. CHC did not properly account for over \$2.3 million of HOME, Section 108 Loans and UDAG Loans funds in their accounting records. The only funds the City reviewed were the CDBG funds given to CHC of about \$100,000 per year. Accordingly, the City is unaware of CHC's use of over \$2.3 million in program funds.

Records Not Maintained In Accordance With Contracts

CHC does not maintain its accounting records in accordance with its contracts. As a result the City does not have assurance that CHC has established adequate internal controls and financial accountability. For example:

- The accounting records for CHC are combined with several other IOI entities on two separate computerized accounting systems. One system is maintained primarily for the management side of the business by the Office Manager for JR Property Management. The second system is maintained for the development side of the business by a contract employee.
- Purchases of properties and notes are not recorded as assets in accounting records.

- CHC does not record all necessary transactions. CHC received HOME and Section 108 funds for acquisition which were not recorded on CHC's books of account. CHC turned the funds over to its attorney to be held in escrow.
- Disbursements from the escrow account made by the attorney are not recorded by CHC.
- Property files do not contain sufficient documentation to support financial transactions. Documentation is missing or incomplete. The Certified Public Accountant's (CPA) management letter identified that receipts and invoices cannot be located for certain transactions.
- Rents are neither reported to the City nor recorded as program income by CHC.
- CHC does not separate the activities carried out under each of its grants; nor does it maintain separate accounts for each grant.
- Other funds committed to the project are not recorded
- Sale of properties are not recorded on the books.

Property Files Incomplete

The City identified disbursements to CHC for 72 properties while CHC maintained files to support transactions for 54 properties. CHC's property files were incomplete, for example:

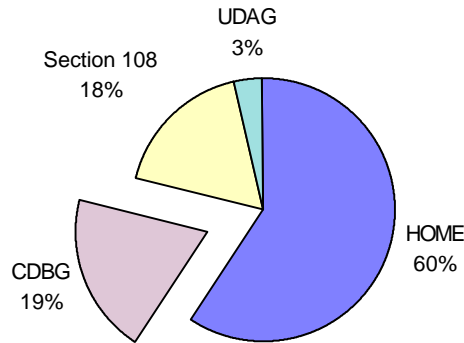
- closing statements were missing, unsigned or incomplete
- construction contracts did not identify initiation and completion date
- sales documents were missing or unsigned
- no documentation to identify that the purchaser was low-income/moderate-income
- inspections were missing
- payment information was missing.

City Only Reviews 19 Percent of CHC's Funding

While the City does perform some monitoring over the subgrantee, we do not believe it is adequate. Currently, only the CDBG program funds are reviewed by the City's Controller for compliance and are audited annually. Funds provided through the HOME, Section 108 Loans, UDAG contracts and rental income are neither reviewed by the City Controller nor audited by a CPA.

Grant	Funds Expended as of 2/28/98
CDBG	\$ 438,940
HOME	\$1,339,856
Section 108	\$ 411,740
UDAG	\$ 73,038
TOTAL	\$2,263,574

A Certified Public Accountant (CPA) consolidates data from the two accounting systems in conjunction with other documentation to audit the financial statements for the CDBG contract. CDBG is the only grant receiving any independent review. The CDBG grant represents only 19% of the HUD funding expended by CHC.



The CDBG audited financial statements have a year end of June 30 to coincide with fiscal year end for the City of New Haven. The CPA also prepares a compilation of the financial position for CHC for its fiscal year end of December 31. The CPA utilizes unsigned closing statements on the properties and the two accounting systems to prepare the compilation. The CPA also performs individual reviews of four properties purchased by CHC with subsidized loans from the Connecticut Housing Finance Authority: Chamberlain Court, Orchard Hill Apartments, Howard Court, and Fairmont Height Apartments.

The City does not have any written procedures for reviewing and monitoring subgrantees performance under the terms and conditions of the contracts. The Deputy for Administrative Service for Livable City Initiative stated that they are in the process of developing written procedures. We believe that the City needs to evaluate CHC to ensure that they are providing quality housing to lower income persons in the most efficient and effective manner possible.

Summary

The Mayor, rightfully, expressed concerns in stating that the City needs to develop and maintain programs that are not only beneficial to the citizens of New Haven, but are also cost effective. It is the City's desire to make optimum use of the limited resources available to revitalize and sustain the City. Safeguards to prevent the misuse of federal funds need to be developed and implemented by the City. The Mayor stated that the HOME program has allowed the City to aggressively promote homeownership and supplement resources committed by private and non-profit sector. The non-profit developers continued to acquire properties from banks at deep discount to improve access to homeownership for low and moderate income families.

In order to accomplish their objectives, the City contracted with non-profit organizations to implement parts of the housing programs. The City entrusted CHC with HUD/FHA insured funds of \$4.3 million for the administration of its housing programs. As shown throughout, the finding, the City needs to improve its monitoring and evaluation of CHC's performance. The City needs to examine

CHC's activities especially related party transactions to assure that funds are being utilized efficiently and effectively. The condition cited in this report disclose breakdowns both at the City and Subgrantee levels. Therefore, there is limited assurance that the expenditures for the City's housing rehabilitation programs are properly accounted for and represent eligible program costs. The City must ensure that all Subgrantees, including CHC, operate in a manner which makes optimum use of the City's resources for providing homeownership to low and moderate income families.

Mayor's Response

The Mayor advised that:

“ . . . the City acknowledges and accepts the factual accuracy of the findings in the Audit Report. Given the same, the City is immediately committed to hiring an outside accounting firm which will, within the next (60) days, design a compliance protocol and implementation program which will ultimately be administered by the City's Internal Audit Division along with additional City staff. We look forward to HUD assistance in the organization of protocols and changes.

Additionally, consistent with the Audit Report's recommendations, the City of New Haven is immediately suspending any future funding of CHC until all of the issues raised by the Audit Report are resolved to the satisfaction of both the City and HUD”

Recommendations

We recommend that you instruct the City to:

- 1A. Obtain a full financial and programmatic accounting of CHC's activities and recover any misspent HUD funds.
- 1B. Suspend any future funding of the Subgrantee until proper controls and safeguards are in place to assure the program is cost effective.

Internal Controls

In planning and performing our audit, we considered the City's and the management and fiscal controls to determine our audit procedures and not to provide assurance on the controls. The City is responsible for establishing effective management and fiscal controls over Subgrantees operations funds with Federal Funds in its Housing programs. Controls consists of interrelated components, including integrity, ethical values, competence, and management and fiscal control environment.

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Fiscal controls include the establishment of proper accounting books and records and maintaining adequate accountability for all transactions. This would include a system for measuring, reporting and monitoring program performance in meeting program goals.

We obtained an understanding of management controls through inquiries, observations, and inspections of documents and records. We focused our review on management and fiscal controls relating to program oversight of CHC's (1) operations; (2) program performance; and (3) financial accountability. Based on our review, we found that there were significant weaknesses in City's monitoring of CHC's operation and in CHC's financial systems which are detrimental to the integrity of program (see Finding).

Appendices

Appendix 1

Schedule of Property Universe as of March 1, 1998

Property	Date Acquired	Date Sold	Home Sec. 108 & UDAG Funds	203K	Other	Total
Properties Sold						
518 Howard	12/13/96	12/13/96	\$ 106,880			\$ 106,880
344 Blatchley	06/30/95	04/09/96	\$ 70,095	\$ 132,000		\$ 202,095
68 James	06/30/95	09/30/97	\$ 63,500	\$ 100,500		\$ 164,000
588 Howard	01/31/96	12/30/96	\$ 99,035	\$ 125,500		\$ 224,535
92 Kensington	02/26/96	02/26/96	\$ 45,000	\$ 74,000		\$ 119,000
89 Wolcott	01/10/95	11/28/95	\$ 31,857	\$ 86,550		\$ 118,407
230 Lloyd	02/08/96	02/08/96	\$ 30,000	\$ 91,700		\$ 121,700
40 Orchard	02/08/96	02/08/96	\$ 30,000	\$ 74,000		\$ 104,000
211 Fitch	04/30/95	11/28/95	\$ 15,950	\$ 69,000		\$ 84,950
288 Exchange	06/30/95	11/06/96	\$ 73,590	\$ 99,000		\$ 172,590
10 Kensington	03/31/95	10/07/96	\$ 15,000	\$ 42,000	\$ 3,400	\$ 60,400
40 Ward	12/23/96	12/23/96	\$ 30,000	\$ 94,000		\$ 124,000
59 Redfield	08/19/96	01/17/97	\$ 15,000		\$ 38,400	\$ 53,400
406 Edgewood	03/31/97	03/31/97	\$ 27,500		\$ 92,400	\$ 119,900
Properties On-Market						
268 Peck	08/31/95	On-Market	\$ 50,343	\$ 98,000		\$ 148,343
168 Wolcott	08/17/95	On-Market	\$ 26,945	\$ 76,300		\$ 103,245
75 Norton	08/10/95	On-Market	\$ 64,326	\$ 112,150		\$ 176,476
153 Lloyd	08/17/95	On-Market	\$ 51,313	\$ 101,000		\$ 152,313
242 Shelton	06/30/95	On-Market	\$ 75,459	\$ 109,700		\$ 185,159
150 Shelton	01/31/96	On-Market	\$ 29,131	\$ 108,800		\$ 137,931
67 Clay	02/01/96	On-Market	\$ 27,969	\$ 104,300		\$ 132,269
233 Blatchley	04/15/97	On-Market	\$ 12,500			\$ 12,500
120 Greenwood	09/26/96	On-Market	\$ 14,000			\$ 14,000
Property Keeping (New Office/Renting 2nd Floor)						
338 Grand	05/23/96	Office	\$ 30,000	\$ 174,400	\$ 30,000	\$ 234,400

Property	Date Acquired	Date Sold	Home Sec. 108 & UDAG Funds	203K	Other	Total
Multi-Family Properties						
101 Judith	12/30/97	Not Sold	\$ 96,623			\$ 96,623
93 Judith	12/30/97	Not Sold	\$ 100,678			\$ 100,678
171 Quinnipiac	12/30/97	Not Sold	\$ 180,274			\$ 180,274
80 Sherman	02/12/97	Not Sold	\$ 69,299			\$ 69,299
35 Main	08/10/95	Not Sold	\$ 160,000			\$ 160,000
Properties Never Acquired With Funds Provided						
151 Butler		Single Family	\$ 17,500	Subsequently Returned		\$ 17,500
254 Grand		Single Family	\$ 12,000	Subsequently Returned		\$ 12,000
105 Greenwood		Single Family	\$ 57,500			\$ 57,500
608 George		Multi-Family	\$ 13,750			\$ 13,750
Additional Funds Provided To CHC						
Homeownership Seminar			\$ 21,617	-0-	-0-	\$ 21,617
Predevelopment Funds			\$ 60,000	-0-	-0-	\$ 60,000
Grand Total All Properties			\$1,824,634	\$1,872,900	\$164,200	\$3,861,734

Appendix 2

Auditee Comments

Appendix 3

Distribution

Director, Office of Community Planning and Development, Connecticut State
 Office, 1ED
 Secretary's Representative, 1AS
 Deputy Assistant Secretary, Office of the Deputy Assistant Secretary for Single
 Family Housing, HS (Room 9282)
 Office of the Comptroller, A (Room 3152)
 Director, Administrative Service Center, 2AA
 Director of Budget, David Gibbons, ARB
 Director, Field Accounting Division, 4AFA
 Director, ASC Contracting Division, 2AA
 Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)
 Acquisition Librarian, Library, AS (Room 8141)
 Director, Housing Finance Analysis Division, REF (Room 8204)
 Chief financial Officer, F (Rm. 10164)
 Deputy chief Financial Officer for Finance, FF (Room 10164)
 AIG, Office of Audit, GA (Room 8286)
 Deputy AIG, Office of Audit, GA (Room 8286)
 Director, Program Research and Planning Division, GAP (Room 8180)
 Director, Financial Audits Division, GAF (Room 8286)
 Central Records, GF (Rm. 8266)
 Semi-Annual Report Coordinator, GF (Rm. 8254)
 SAC, Office of Investigation, Boston
 HUD OIG Webmaster
 Michael Zegera, Public Affairs Officer, G, (Room 8256)
 Public Affairs Officer, New England 1AS
 Andrew Cianci, ALO, 3AFI

Director, Housing and Community Development Issue Area, US
 GAO, 441 G Street, NW, Room 2474, Washington, DC 20545
 Attn.: Judy England-Joseph

Department of Veterans Affairs, OIG (52A)
 810 Vermont Ave.
 NW, Washington, DC 20420

The Honorable Rosa L. Delauro, Member of Congress
 436 Common House Office Building
 Washington, DC 20515-0703

Dan Burton, Chairman
Committee on Government Reform and Oversight
House of Representatives
Washington, DC 20515-6143

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

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

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

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