OFFICE OF AUDIT
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OFFICE of INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Housing Authority of the City of Bridgeport, CT

Public Housing and Housing Choice Voucher Program Expenditures

2014-BO-1001 **JANUARY 23, 2014**

Issue Date: January 23, 2014

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//SIGNED//
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SUBJECT: The Housing Authority of the City of Bridgeport, CT, Did Not Always Ensure That Expenses Charged to Its Federal Programs Were Eligible, Reasonable, and Supported

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Bridgeport Housing Authority, Bridgeport, CT.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.

January 23, 2014

The Housing Authority of the City of Bridgeport, CT, Did Not Always Ensure That Expenses Charged to Its Federal Programs Were Eligible, Reasonable, and Supported

Highlights

Audit Report 2014-BO-1001

What We Audited and Why

We audited the Housing Authority of the City of Bridgeport, CT, based on a request from the U.S. Department of Housing and Urban Development (HUD), Hartford, CT, field office. HUD officials were concerned about the Authority due to significant financial deficiencies that were not corrected in a timely manner. Our audit objective was to determine whether Authority officials ensured that expenses charged to Federal programs were eligible, reasonable, and supported.

What We Recommend

We recommend that the Director of HUD's Hartford Office of Public and Indian Housing require Authority officials to (1) repay more than $895,000 in ineligible costs and support or repay more than $790,000 in costs charged to the Authority's Federal programs, (2) measure and monitor the maintenance staff's productivity and rotate work schedules to avoid unnecessary overtime costs, (3) develop procedures to competitively obtain insurance, and (4) train staff on asset management rules.

What We Found

Authority officials did not always ensure that expenses charged to the Authority's Federal programs were eligible, reasonable, and supported. Specifically, they did not (1) properly charge and support all costs allocated to Federal housing programs, (2) adequately manage maintenance costs, and (3) ensure that employee health care and liability insurance policies were obtained at the most cost-effective price. These deficiencies occurred because Authority officials improperly implemented asset management procedures and did not provide formal accounting procedures and supervision. As a result, ineligible costs of more than $895,000 were incurred, and more than $790,000 in charges was unsupported. These improper charges weakened the projects' financial position and left fewer funds for operations. Also, with diminishing budgets and staffing levels, diverting staff from Federal to non-Federal properties could result in degraded maintenance at the Federal properties.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Bridgeport, CT, was created under section 8-40 of the Connecticut General Statutes to provide low-income public housing for qualified individuals. The Authority has contracted with the Federal Government, acting through the U.S. Department of Housing and Urban Development (HUD), for financial assistance for low-income housing under the United States Housing Act of 1937 as amended. The Authority is governed by a five-member board of commissioners, which appoints an executive director to manage the day-to-day operations of the Authority. The Authority administered more than 2,800 Section 8 housing choice vouchers and more than 2,500 public housing low-rent units. It received approximately $30 million in Federal Section 8 Housing Choice Voucher program funds and $18 million in public housing funds in fiscal year 2012.

The Authority also manages Baldwin Holdings, Incorporated, a non-Federal tax-exempt organization created for the development of housing units that benefit low-income residents of Bridgeport. The board members of Baldwin are employees or commissioners of the Authority. The Authority’s employees provided the following services for Baldwin: (1) administrative services, (2) maintenance services, (3) accounting services, and (4) insurance for Baldwin units.

Our audit objective was to determine whether Authority officials ensured that expenses charged to Federal housing programs were eligible, reasonable, and supported. Specifically, we reviewed

- Maintenance labor costs;
- Property management, book-keeping, and asset management fees;
- Auditing, consulting, and fee accountant services;
- Legal fees; and
- Insurance costs.

We also wanted to determine whether Authority officials complied with asset management rules when they transferred funds from Federal asset management projects to other asset management projects in fiscal year 2012.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Always Properly Charge and Support Costs Allocated to Its Federal Programs

Authority officials did not always properly charge and support costs allocated to the Authority's Federal housing programs. Specifically, they improperly charged the Federal programs for central maintenance employees, management and book-keeping fees, insurance, non-Federal maintenance work, auditing and consulting fees, and legal costs. In addition, officials transferred cash between asset management projects that were not eligible for the transfers. These conditions occurred because Authority officials inappropriately implemented asset management procedures and did not provide formal accounting procedures and supervision. As a result, the Federal programs were overcharged by more than $895,000, and officials could not support more than $790,000 charged to Federal programs. These improper charges weakened the projects' financial position and left fewer funds for operations.

Federal Programs Were Overcharged

Authority officials overcharged Federal housing programs $895,852 as follows:

Overcharges	Amount
Central maintenance employees	$240,321
Management and book-keeping fees	281,611
Non-Federal maintenance	88,290
Public officials'[1] and property liability insurance	26,434
Auditing and consulting costs	30,000
Contract legal costs	4,196
Transfers	225,000
Total	$895,852

Central Maintenance Costs Charged to Federal Programs

Authority officials charged the Authority's asset management projects for three central maintenance employees: a central maintenance coordinator, a central work order clerk, and a sweeper operator-maintenance aide.[2] Under asset management rules,[3] these central maintenance costs must be charged to the central office cost center. As a result of the improper charges, $240,321 in ineligible salary and benefit costs was charged to Federal programs.

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[1] Public officials' liability insurance provides liability coverage for the errors and omissions of public officials.

[2] Charged between January 2012 and May 2013

[3] 24 CFR (Code of Federal Regulations) 990.280(d)

When we informed Authority officials that these costs could not be allocated and charged to the asset management projects, they stated that they planned to eliminate these positions.

Additionally, Authority officials did not properly charge the salary and benefit costs of a heating, ventilation, and air conditioning technician when they allocated approximately $187,550 of this employee's costs across all of the asset management projects based on the number of boilers at each project. Asset management rules require that central maintenance services such as these be charged on a reasonable fee-for-service basis to ensure that the asset management projects pay only for the services they receive.[4]

Asset Management, Property Management, and Book-Keeping Fee Overcharges

The Federal projects were overcharged $281,611 in asset management, property management, and book-keeping fees between October 2009 and April 2013. Specifically, $158,880 in asset management fees was overcharged in fiscal year 2010. Before our audit, the chief financial officer also identified the overcharges, which were made before he was employed at the Authority. However, journal entries to correct the overcharges and reimburse the asset management projects had not been made. In addition, property management and book-keeping fees of $108,193 and $14,538, respectively, were overcharged when Authority officials overstated the number of housing units used to calculate the fees. HUD requires that only occupied and HUD-approved vacant units be included in fee calculations; however, Authority officials included vacant units that did not have the required HUD approval.

Non-Federal Maintenance

Federal funds may be used only to operate, maintain, and manage public housing properties.[5] However, federally paid scattered sites workers' activities included maintaining and managing the Authority's non-Federal Baldwin Holdings properties.[6] We attributed this noncompliance to the improper implementation of asset management procedures. Although the officials tried to track and charge Baldwin for the work, the hours charged were not always accurate. At least 197 hours of maintenance were not charged during 2011, and work for grounds

[4] We noted that this employee also performed some work on non-Federal properties; however, because the majority of the work was at the Federal properties, we did not take a cost exception for the $187,550. In addition, Authority officials agreed that going forward, they would charge the properties on a fee-for-service basis in accordance with asset management rules.
[5] The Housing Act of 1937, Section 9, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/am/eligibility
[6] There are approximately 66 Baldwin Holdings, Incorporated, units.

maintenance and snow removal was not tracked or billed.[7] In addition, officials did not bill for the equipment or gas used. As a result, the $19,010 billed to Baldwin for maintenance was materially understated. The scattered sites' staff also provided administrative services for Baldwin, and officials billed $69,280 for these services. However, the accounting records provided did not show that the scattered sites were paid for these services.[8] Due to the condition of the Authority's books and records, we could not readily determine the total amount requiring repayment. Therefore, we estimated that at least $88,290 required repayment.

Insurance Overcharges

Authority officials overcharged Federal programs $26,434 for insurance. They improperly allocated $11,172 for public officials' liability insurance to the Authority's Federal programs in 2012. The Authority's allocation plan was based on the number of housing units and resulted in no charges to the central operating cost center and Section 8 program. However, since the central operating cost center and Section 8 program had approximately 54 of the Authority's 144 employees, they benefited from the insurance and should have paid a portion of its costs. During the audit, finance officials agreed to allocate the costs based on the number of covered employees starting in fiscal year 2013.

In addition, Authority officials overcharged the Authority's asset management projects $15,262 for general property liability insurance because recently acquired non-Federal housing units were not included in its allocation plan.[9]

Auditing and Consulting Fees Improperly Charged

A majority of the $641,000 in accounting and auditing charges reviewed were for necessary, reasonable, and supported project costs. However, $30,000 was not eligible. Specifically, Authority officials charged Federal programs $20,000 for organizational consulting services provided by the Authority's auditor that benefited the central operating cost center's human resources, procurement, finance, and information departments. However, this was not an eligible expense because the services provided had already been paid for as part of the management fees the asset management projects paid to the central operating cost center.

Authority officials also used $10,000 in Federal operating funds for additional services related to the Authority's 2009 independent audit. The additional audit

[7] The work orders did not include travel time and supervisory costs for the foreman, which also resulted in undercharges to Baldwin.
[8] Employees from other Federal projects also performed work for Baldwin at times, but scattered sites employees were generally the employees who performed the work.
[9] Officials overcharged the asset management projects for property liability insurance $7,965 in fiscal year 2012 and $7,297 in fiscal year 2013 for a total of $15,262.

work was required to cover tasks related to the absence of a chief financial officer and newly acquired component units. However, these costs should have been charged to the central operating cost center because the asset management projects paid for a chief financial officer as part of the fees they paid to the central operating cost center and the component units were non-Federal units, the costs of which should be charged to the central operating cost center.

In addition, Authority officials did not allocate any of the Authority's annual audit costs to the central operating cost center, its non-Federal component units, or the Section 8 program, all of which were audited. Thus, the asset management projects paid more than their fair share of these costs.

Legal Costs Mistakenly Charged

Authority officials charged $4,196 in ineligible legal costs to the Authority's asset management projects, which should have been charged to its central operating cost center. The ineligible charges included $3,346 in legal fees paid to a law firm for a central operating cost center employee and $850 charged to research procurement procedures. We attributed these ineligible charges to nonsystemic mistakes, but both required repayment.

$225,000 in Cash Improperly Transferred

Authority officials transferred funds between asset management projects in fiscal year 2012 when the projects did not have the required excess cash.[10] They also did not record all income and expenses for the Presidential Village project in the general ledger; thus, the Authority's excess cash calculation was incorrect. This condition occurred due to inadequate accounting procedures and the finance staff's misunderstanding of asset management rules. As a result, the $225,000 transferred reduced the amount of funds to operate the three projects and must be repaid. Also, unless Presidential Village's excess cash calculation for 2012 is corrected, additional ineligible transfers may have been made in fiscal year 2013.

Charges to the Federal Programs Were Unsupported

Authority officials did not provide adequate supporting documents for $790,555 in costs charged to Federal programs. Specifically, they lacked documents to support (1) whether their allocation for workers compensation insurance was equitable, (2) various legal fees charged to the Authority's properties, and (3) their reasoning for charging the Section 8 program for general property insurance.

[10] The three asset management projects that did not have "excess cash" were Presidential Village, Park City Eleanor, and Park City Franklin.

Unsupported charges	Amount
Workers compensation insurance	$394,702
In-house legal fees	376,298
General property liability insurance	19,555
Total	$790,555

Workers Compensation Insurance Allocations Unsupported

Authority officials charged workers compensation premiums to the Authority's central operating cost center, asset management projects, and the Section 8 program based on percentages; however, they lacked support regarding how the percentages were determined. We questioned the charges because the Authority's central operating cost center had 23 percent of the employees but was charged only 2 percent of the costs and the Section 8 program had 12 percent of the employees but paid only 6 percent of the costs. During the review, finance officials provided a proposed allocation plan; however, the plan was inadequate because it used arbitrary percentages and did not account for insured employees who did not submit claims but benefited from the insurance and, thus, should have also been allocated a portion of the costs. Based on one method of allocating costs, we determined that the Authority may have overcharged its asset management projects $394,702 and undercharged the Section 8 program and the central operating cost center $207,821 and $186,881, respectively (see appendix C for details).

In-House Legal Fees Unsupported

Authority officials could not support their time allocation for in-house and some miscellaneous legal expenses totaling $376,298. We questioned the support for in-house legal expenses because contrary to HUD's requirements, the Authority's finance department charged all of its in-house legal staff's salaries and benefits to its Federal asset management projects between October 2011 and November 2012. Although some work was performed for the projects during this period, Authority officials could not show that all staff time was billable to the asset management projects. We attributed this condition to weak accounting controls and Authority officials' failure to require the Authority's legal department to track time spent working for Federal housing programs. The Authority changed procedures in December 2012 and started billing based on an estimate of 5 hours per case. However, the finance department overstated the number of legal cases charged, resulting in some overcharges. As a result, the $375,145 charged for in-house legal services was considered to be unsupported and required support or repayment. In addition, we identified $1,153 paid for miscellaneous legal expenses that needed to be supported or repaid.

Unsupported Property Liability Insurance Charged to the Section 8 Program

The Authority charged the Section 8 program $19,555 for general property liability insurance but could not show how the program benefited from the insurance. Therefore, the $19,555 must be supported or repaid.

Conclusion

Authority officials did not always properly charge and support costs allocated to the Authority's Federal housing programs. Specifically, they improperly charged the Federal programs for central maintenance employees, management and book-keeping fees, non-Federal maintenance work, insurance, auditing and consulting fees, and legal costs. In addition, officials transferred cash between asset management projects that were not eligible for the transfers. These conditions occurred because Authority officials improperly implemented asset management procedures and did not provide formal accounting procedures and supervision. As a result, Federal programs were overcharged by more than $895,000, and officials could not support more than $790,000 charged to Federal programs. These improper charges weakened the projects' financial position and left fewer funds for operations.

Recommendations

We recommend that the Director of HUD's Hartford Office of Public and Indian Housing require Authority officials to

1A. Repay the Authority's asset management projects from non-Federal funds $582,562 related to the ineligible cost deficiencies identified in this finding; specifically, charges of $240,321 for central maintenance employees; $281,611 for asset management, property management, and bookkeeping fees; $26,434 for insurance; $10,000 for auditing; $20,000 for consulting; and $4,196 for legal expenses.

1B. Determine the amount the Baldwin Holdings properties owe for maintenance and administrative services provided by federally paid workers from October 1, 2009, to the present in accordance with HUD's asset management rules, including but not limited to grounds cleanup, grass cutting, and snow removal, and repay at least $88,290 to the scattered sites and other asset management projects from non-Federal funds.

1C. Stop using federally paid public housing maintenance staff to maintain non-Federal properties.

1D Confirm that they have stopped the practice of allocating all of the salary and benefits costs for three central maintenance employees to the Authority's asset management projects.

1E. Charge the heating, ventilation, and air conditioning technician and any other positions providing services across asset management projects to the central cost center and charge the asset management projects and if applicable, the Baldwin Holdings, Inc., properties on a fee-for-service basis in accordance with asset management rules.

1F. Establish and implement accounting controls to ensure that property management, book-keeping, and asset management fees are properly charged to the asset management projects and adequate records are retained to support the fees charged.

1G. Establish and implement formal written procedures for insurance allocation plans to ensure that all entities pay for services in proportion to the benefits received.

1H. Develop and implement procedures to charge the Authority's Section 8 program, central operating cost center, and non-Federal units an appropriate share of the annual independent audit costs.

1I. Repay the Authority's asset management projects 058 (Park City Eleanor), 059 (Park City Franklin), and 061(Presidential Village) $75,000 each for a total of $225,000 related to the ineligible transfers made in fiscal year 2012 from the asset management projects that received these funds.

1J. Properly account for income and expenses in the Authority's general ledger for asset management project 061 (Presidential Village), recalculate the excess cash for fiscal year 2012, and resubmit the excess cash amount for this project to HUD's Real Estate Assessment Center.

1K. Support or repay the Authority's asset management projects from non-Federal funds $771,000 related to workers compensation insurance ($394,702) and in-house legal staff salaries and miscellaneous legal expense ($376,298).

1L. Support or repay the Authority's Section 8 program from non-Federal funds $19,555 related to general property liability insurance.

1M. Establish and implement formal written procedures to track time for in-house legal services charged to the Authority's Federal programs in accordance with HUD's requirements.

1N. Establish and implement formal written accounting procedures and train staff to ensure that expenses are properly allocated and charged in accordance with asset management rules.

Finding 2: Maintenance Costs Were Not Adequately Managed

Authority officials did not adequately manage maintenance labor costs to ensure that they were reasonable and cost effective when they did not use a rotating schedule for maintenance staff to avoid unnecessary overtime costs, establish a method to measure and monitor productivity, and ensure that their in-house maintenance staff had the necessary skills to perform the required work. We attributed these deficiencies to poor record-keeping and accounting controls and poor management decisions. As a result, the Authority's asset management projects paid more than they should have.

A Rotating Work Schedule Was Not Used

The Authority's contract with nonsupervisory maintenance staff allowed for a 7-day rotating work schedule.[11] However, Authority officials scheduled a regular work week for Monday through Friday and overtime for all weekends.[12] Officials said that they continued with this schedule because they had done so for years and did not want to make changes during union negotiations. Yet, if they had used the rotating 7-day work schedule, they could have avoided the unnecessary overtime. We attribute the unnecessary overtime costs to poor management decisions.

Due to the condition of the Authority's records, we could not readily determine the total amount of unnecessary overtime costs. However, we conservatively estimated that the asset management projects paid at least $45,276 annually for unnecessary overtime totaling $158,465 during the 3½ years reviewed.[13]

Officials Lacked an Effective Method To Measure and Monitor Productivity

Authority officials lacked a method to measure, track, and evaluate worker productively. Maintenance was recorded on automated work orders; however, Authority officials did not review them to ensure that staff completed tasks in a timely manner and met an acceptable standard of productivity. In addition, work orders were not completed for grounds, landscaping, snow removal, and janitorial work. Our review of three maintenance employees' work orders for 1 week showed that work orders accounted for only about half of the 40-hour work week. Additionally, Authority officials stated that a prior executive director promoted all

[11] Therefore, some staff could be scheduled to work a 5-day week that spanned a Saturday or Sunday.
[12] The overtime schedule included a foreman, a maintenance mechanic, and a maintenance aide for 8 hours per day plus two janitors for 3 hours per day.
[13] $158,465 / 3.5 years = $45,276 per year, which accounts for the difference between regular or straight pay and overtime at 1.5 times straight pay.

of the janitors to maintenance aides without ensuring that they had the skills to perform their new duties. Thus, Authority officials were concerned that many of the Authority's maintenance workers needed additional skills to perform all of the work required in their job descriptions. As a result, officials could not show that maintenance was completed in the most cost-effective manner.[14] We attributed this condition to poor management decisions.

During the review, recently hired Authority officials agreed to implement procedures to track and evaluate maintenance productivity.

Recommendations

We recommend that the Director of HUD's Hartford Office of Public and Indian Housing require Authority officials to

2A. Implement a 7-day rotating work week in accordance with the Authority's union contract, which if implemented, should decrease overtime costs by at least $45,276 per year.

2B. Establish and implement formal written procedures to measure the productivity of the maintenance staff, assess the maintenance staff's abilities, and ensure that the staff has the necessary skills to perform the required work. Authority officials should also ensure that corrective action is taken when productivity goals are not achieved and provide training as needed.

[14] As required by the Authority's annual contributions contract with HUD

Finding 3: Procurement Procedures Did Not Ensure That Health Care and Liability Insurance Was Obtained at the Most Cost-Effective Price

Authority officials did not always ensure that insurance was obtained at the most cost-effective price. We attributed this condition to restrictive contracts with unionized staff and the Authority's reliance on an insurance broker to procure insurance. As a result, the Authority's Federal housing programs may have paid more for insurance than necessary, thereby reducing the amount of funds available for housing services.

Health Insurance Was Not Competitively Obtained

The Authority's employee health insurance was not solicited competitively to ensure that the most cost-effective plan was obtained.[15] This condition occurred because prior Authority officials signed collective bargaining agreements with union employees that limited the Authority's health insurance plan to one vender and a specific plan. During our review, officials were trying to remove the restriction and said they were hopeful but not certain that the union would approve the change. In anticipation of a nonrestrictive agreement, officials contacted the State of Connecticut to obtain a bid for health insurance under the State's plan. The director believed the State plan would significantly reduce costs.

Authority officials said that the Authority's health care plan was generous compared with those of other authorities and private businesses. The plan, known as a "Cadillac" health plan, will be subject to special additional taxes under the Patient Protection and Affordable Care Act.[16] Thus, controlling health care costs is vital to Federal programs' current and future financial condition.

Procedures To Procure Liability Insurance Needed Improvement

Authority officials did not follow the Authority's procurement procedures when they procured insurance policies for more than $25,000. Specifically, they should

[15] Regulations at 24 CFR 85.36(c)(1) require full and open competition for all procurement actions.
[16] Under the Patient Protection and Affordable Care Act, starting in 2018, insurance companies will be assessed a 40 percent excise tax on "Cadillac" health plans. These are plans with annual premiums exceeding $10,200 for individuals or $27,500 for families. The Federal Congressional Budget Office predicted, "For policies whose premiums remained above the threshold, the tax would probably be passed through as a corresponding increase in premiums"; thus, paying the additional tax would result in fewer funds for housing.

have obtained these policies by sealed bid or the Authority's competitive proposal method. Instead, they relied on an insurance broker to solicit liability insurance quotes. As a result, they lacked records to show that the insurance policies were properly competed and that the bid with the most advantageous price and other factors was selected. Authority officials expressed concern regarding the broker's performance because the broker provided only one quote for general liability and two quotes for excess liability just before the end of the policy period. In addition, the premiums were high, with a substantial increase over the previous policy. However, with the policies about to expire, Authority officials had to accept the bids to maintain insurance.

During the review, Authority officials solicited insurance quotes from a vender that had obtained a bidding waiver from HUD. Therefore, if officials obtain insurance through this vender, the requirement to competitively solicit and procure insurance would be satisfied, and multiple bids would not be required.

Recommendations

We recommend that the Director of HUD's Hartford Office of Public and Indian Housing require Authority officials to

3A. Develop a method to obtain competitively procured health insurance that is acceptable to HUD and does not restrict insurance to one company.

3B. Revise and implement the Authority's contracting procedures to ensure that insurance policies are competitively solicited and procured in a timely manner and documentation is maintained to show the history for each procurement. If an insurance company with a HUD bid waiver is used to procure insurance, a copy of the waiver would satisfy these requirements.

SCOPE AND METHODOLOGY

The review focused on whether Authority officials charged expenses to Federal programs that were eligible, reasonable, and supported. To accomplish our audit objective, we

- Reviewed laws, regulations, and HUD guidance related to our objective, including Federal appropriations acts; Office of Management and Budget Circular A-87; the Authority's annual contributions contracts with HUD; public housing asset management rules; and Housing Choice Voucher and Section 8 program requirements in HUD handbooks, notices, and guidance.

- Obtained an understanding of the Authority's financial and management controls and organizational structure.

- Interviewed HUD field office and Authority staff.

- Reviewed general ledgers, journal entries, budgets, contracts, and cost allocation plans pertaining to our audit objective.

- Reviewed HUD's most recent monitoring report and independent public accountant audit reports.

- Reviewed the Authority's policies and procedures, collective bargaining agreements, and employee job descriptions.

- Reviewed all of the approximately $9 million in asset management, property management, and book-keeping fees charged to Federal asset management projects from October 2009 to April 2013 to determine whether they were eligible and supported.

- Reviewed more than $5 million in transfers made in fiscal year 2012 between asset management projects to determine whether the Authority met fungibility requirements.

- Tested a sample of 20 legal charges, which had the highest dollar amount, totaling $261,245 of the $411,055 in legal fees charged to the Authority's Federal programs during our audit period.

- Reviewed more than $4.1 million in property and fire, general liability public officials', and workers compensation insurance costs that the Authority charged to its asset management projects to determine whether there were material overcharges or undercharges.

- Reviewed $641,137 in accounting and auditing costs charged to the Authority's asset management projects to determine whether the costs were necessary, reasonable, and supported.

- Reviewed a sample from approximately $22 million in maintenance labor costs expended during the audit period. Specifically, we reviewed $240,321 in costs charged for three central maintenance employees during the audit period to determine the necessity and reasonableness of the costs.

- Conservatively estimated that at least $158,500 of the $1.7 million expended for overtime during the audit period was for unnecessary scheduled overtime. We calculated the unnecessary overtime costs by multiplying the number of hours scheduled for each weekend times the difference between the average hourly rate for the workers and the average overtime rate for the workers.

- Reviewed $88,290 in maintenance labor costs and administrative costs[17] charged to Baldwin properties for maintenance and administrative services provided by asset management project employees during the audit period to determine whether the costs were properly charged and reimbursed.

- Relied on two automated data systems to test property management and bookkeeping fees. We used the Authority's Visual Homes electronic database to determine how many units were occupied each month. We tested 30 units listed as occupied in the database and used tenant files to verify the database accuracy. We used HUD's Public and Indian Housing Information Center (PIC) to determine the number of HUD-approved vacancies per month. We compared 1 month of vacancies listed in the database to HUD approval letters to verify the accuracy of the database. Our testing showed that we could reasonably rely on the databases for the number of occupied units per month and HUD-approved vacancies.

  Note - The number of HUD-approved vacancies before January 2011 was not available in PIC, and the number of occupied units before January 2011 was not available in Visual Homes. Thus, we used the Authority's approved operating subsidy forms for this period because it was the best available information.

The audit covered the period October 2009 through September 2012 and was extended when necessary to meet the audit objective. We performed the audit fieldwork from January to July 2013 at the Authority's administrative office located at 150 Highland Avenue, Bridgeport, CT.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

[17] Administrative labor costs charged were for one employee, who was an asset management program occupancy specialist.

objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations, as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- Authority officials did not have adequate controls to ensure that program objectives were met, that they complied with laws and regulations, and that they safeguarded resources when they (1) overcharged for management and book-keeping fees; (2) improperly charged insurance, legal, auditing, and consulting costs to asset management projects; (3) improperly transferred cash; (4) did not adequately manage maintenance employees' overtime costs; and (5) did not follow their procurement procedures (see findings 1 through 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$582,562		
1B	$88,290		
1I	$225,000		
1K		$771,000	
1L		$19,555	
2A			$45,276
Totals	$895,852	$790,555	$45,276

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

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if Authority officials implement our recommendation to stop the practice of a 5-day work schedule with scheduled overtime on weekends and go to a 7-day rotating work week in accordance with the Authority's union contract (2A), they can assure HUD that at least $45,276 in excess costs will not be charged to Federal projects and will be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments [18]**

HOUSING AUTHORITY OF THE CITY OF BRIDGEPORT

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Dulce Nieves, Chairperson
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Shanté T. Hanks
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December 11, 2013

Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Department of HUD – Office of Inspector General for Audit
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Dear Mr. Moore:

Attached, please find the Housing Authority of the City of Bridgeport's (HACB) comments in regards to the Draft Report. Please note that HACB's response is inserted directly into the Draft Report under each finding.

We appreciate the opportunity in providing you with additional information on the findings and look forward to working with you in resolving any outstanding issues.

Sincerely,

Jimmy L Miller
Interim Executive Director

[18] The complete text of the auditee's comments was too voluminous for inclusion in the report since it was embedded throughout our draft report; therefore, we extracted the responses. The auditee's original submission will be provided to HUD and can be obtained upon request.

Ref to OIG Evaluation	Auditee Comments
	Finding 1
Comment 1	**RESPONSE FOR WORK ORDER CLERK:** Respectfully we disagree with the ineligible findings resulting in the cost allocated in regards to the Work Order Clerk, during the time period sited the Work Order Clerk and Maintenance Service was a Frontline Expense (24 CFR Part. 990), Table 7.2 – Front Line costs and Fee Costs under the Operating Fund Rules are eligible costs as shown under Front-Line Expenses. All repair and maintenance costs for the AMP including centralized Work Order processing provided under a fee for services arrangement, provided cost are reasonable and necessary. We will provide all of the Work Order Clerk's time allocation by Work Orders per AMP that were opened and closed. Therefore, the finding should be changed from ineligible to unsupported.
Comment 2	**RESPONSE FOR HVAC TECHNICIAN** Respectfully we disagree with the ineligible findings resulting in the cost allocated in regards to the HVAC Technician, during the time period sited the HVAC Technician and Maintenance Service was a Frontline Expense (24 CFR Part. 990), Table 7.2 – Front Line costs and Fee Costs under the Operating Fund Rules are eligible costs as shown under Front-Line Expenses. All repair and maintenance costs for the AMP including centralized maintenance processing provided under a fee for services arrangement, provided cost are reasonable and necessary. We will provide all of the HVAC's Technician time allocation by Work Orders/Time card per AMP that were opened and closed. Therefore, the finding should be changed from ineligible to unsupported.
Comment 3	**CENTRAL MAINTENANCE COORDINATOR** • We are in agreement with the ineligible misallocation of cost and will reimburse the AMPs. This should have been a Front-Line cost and we cannot support this. These costs are Front-Line expenses per 24 CFR Part 990, Table 7.2 and therefore should be moved from ineligible to unsupported however we cannot document.
Comment 4	**SWEEPER OPERATOR:** • Portion of cost ineligible related to warehouse operations, we agree a portion of costs related to vehicle maintenance, deliveries, - • Vehicle expense (maintenance, gasoline and repairs) for site-based vehicles. These costs are Front-Line expenses per 24 CFR Part 990, Table 7.2 and therefore should be moved from ineligible to unsupported.

Ref to OIG Evaluation	Auditee Comments
Comment 5	From the FY2010 audit, the $158,880 seems correct. We reviewed the management and bookkeeping fees for the overcharge of $183,193 and $14,538. We agree that BHA overcharged as entries into the records were based on VisualHomes and never reconciled with PIC. There were times where PIC numbers were delayed or inaccurate therefore BHA relied on the VisualHomes numbers. Doing an initial review of the reconciliation it looks likes Presidential Village was not factored in the overage calculation which could result in a reduction of about $45,000 of the overage. Please provide us additional information and documentation to reference your calculations and finding.
	RESPONSE FOR NON-FEDERAL MAINTENANCE TECHNICIAN
Comment 6	Documentation is available for the maintenance and management charges for 2012. The amount was recorded in the books of Baldwin for FY2012. The hours and names are identified for the work of the management (COS) and the maintenance crew. This amount was booked and paid back to BHA.
Comment 7	• For the previous years, cash was transferred from Baldwin to the AMPs from 04/1/2010 to 01/4/2011 for work done during 2010 and 2011. The amount of the cash transferred to the AMPs was$40,589. Specifically check #1048 for $1,528.69, Check #1064 for $884.19, check #1070 on 10/21/2010 for $5,428.89, check #1088 on 12/21/2010 for $30,818.02. The COS stopped working on Baldwin in 2012. Therefore, $40,589 should be removed from the finding.
Comment 8	• Finally, either checks were cut from Baldwin or Baldwin was charged directly for Scattered Sites administrative Staff (COS) for mileage and additional expenses. For example: check #1065 made out to the COS on 9/7/2010 for $108.
	RESPONSE TO INSURANCE OVERCHARGES:
Comment 9	Upon review of the insurance certificate and the allocation of the Public Officials in FY2011 and FY2012, the OIG recognized an error in their calculation for Public Officials insurance and significantly reduced the overcharge amount to approximately $20,000. The exact reduction for public officials insurance was from $74,046 to $22,344 with proposed report verbiage changes from OIG. The overcharge of public officials insurance was for the allocation omitting central office in the journal entry.

Ref to OIG Evaluation	Auditee Comments
Comment 10	• For the $15,262 Baldwin paid for insurance in FY2011-2013. Baldwin was not billed directly by the Housing Authority. Upon discussions with the insurance agent, they estimate the Baldwin premium coverage on the property insurance to be $4,000 per year. Since, 2013 costs were charged; we would only need to charge Baldwin for 3 years 2010- 2012 or $12,000 and not $15,262. With 2010 being a short year since Baldwin started that year, the amount will be about $10,000 for the three years to charge back to the AMPs.
	RESPONSE TO UNSUPPORTED CHARGES IN FEDERAL PROGRAMS:
Comment 11	We agree that $20,000 out of the $30,000 were not eligible. The fee accountant was performing the duties in the absence of a CFO. Therefore, we dispute the $10,000.
	RESPONSE TO LEGAL COSTS MISTAKENLY CHARGED: We agree to the $4,196 in ineligible legal costs.
Comment 12	**RESPONSE TO IMPROPERLY TRANSFERRED CASH:** Pursuant to 24 CFR 990 paragraph 6.6 Excess Cash and Fungibility, excess cash available can be calculated as the PHA closes its books for the year and is able to make the calculation. At that time excess cash can be used. However, the final amount of excess cash available is based on the approved audit submission. If the PHA has already moved excess cash over the amount as calculated using the audited numbers the receiving AMP or COCC must return that money. Even though the excess cash was available, BHA transferred the funds after the close of the books but before the approved audit transmission. BHA concurs that they should pay the funds back from FY2012 although BHA will take the transfer of funds in FY2013.

Ref to OIG Evaluation	**Auditee Comments**
Comment 12	Furthermore, several AMPs have more than $225,000 in FY2013. For example Marina Village AMP002 has $354,034, Trumbull Gardens AMP004 has $465,245 and Scattered Sites 2 AMP 882 has $411,681. Therefore, we can put the transfer back in FY2012 and properly transfer it again in FY2013 without affecting any Asset Management Fees charged in FY2013 for any of the AMPs.
Comment 13	**RESPONSE TO WORKS COMPENSATION:** We agree that the original allocation calculation was not completely accurate, however we dispute OIG’s allocation rate. BHA did a preliminary review of FY2010-FY2012 based on insurance rates charges of .27/$100 payroll for clerical staff and $10.69/$100 payroll for maintenance staff. This allocation resulted in an underpayment of $70,000 for Central Office, an underpayment of $5,000 for AMPs and an overpayment of Section 8 by $75,000 for the 3 year period.
Comment 14	**RESPONSE TO UNSUPPORTED IN-HOUSE LEGAL FEES:** Legal department tracks the amount of work performed for each AMP monthly and did so during this time frame. We agree that these fees were unsupported however; backup documentation will support the work load of cases for each AMP for this time frame which will exceed the $376, 298 figure as outlined in the OIG draft response. This will be broken down on a fee for service basis and the amount of time taken to complete each service. Due to the cost reasonableness factor it is far more cost effective to charge a flat fee for service to the AMP then bill the AMP’s on a hourly basis for legal work performed on the AMP’s behalf. **RESPONSE TO PROPERTY LIBABILITY INSURANCE:** We agree that these findings are unsupported and will be paid back.

Ref to OIG Evaluation	Auditee Comments

Finding 2

RESPONSE TO ROTATING WORK SCHEDULE:

Comment 15 We agree with the findings and are currently negotiating union contracts that will resolve this issue. The 2311 Maintenance Union consists of Janitors, Maintenance Aides, and Maintenance Mechanics. They have a 7 day work schedule in their contract that would avoid some overtime cost, however the 818-12 Asst. Manager/Foreman position does not allow for the 7 day work week and their contract therefore does not provide supervision to the maintenance staff. A proposal is on the table for union negotiations to include the 7 day work week in the Asst. Manager/Foreman unit.

RESPONSE TO LACK OF EFFECTIVE METHOD TO MEASURE AND MONITOR PRODUCTIVITY:

Comment 16 We agree that we lacked previous methods to measure and monitor productivity, however it is now a requirement that Work Orders must now be opened for all work performed including grounds, landscaping, snow removal, and janitorial work. GPS tracking devices have been placed in all maintenance worker cell phones to account for all hours worked. Maintenance staff cell phones are also equipped to open and close work orders from the field. Lastly, weekly productivity reports are now required by the sites.

Finding 3

RESPONSE TO HEALTH INSURANCE WAS NOT COMPETITIVELY OBTAINED:

Comment 15 We agree with the findings and BHA currently has an RFP out for Employee Benefits Brokerage Services to obtain a broker who will competitively obtain the most cost effective health insurance plan. In the current union negotiations, a proposal by BHA management is for a HSA plan which can average a 22 percent reduction in plan costs.

Ref to OIG Evaluation	Auditee Comments
Comment 15	**RESPONSE TO PROCURE LIABILITY INSRANCE:** We agree with these findings that BHA did not follow procurements standards however the insurance agent did make an attempt to competitively procure the insurance in FY2011-2012. The agent solicited about 15 quotes via email and chose the best offer from those. Starting Jan 1, 2013, BHA has contracted with Haig, a HUD approved and federally exempt company for procuring insurance, for their business liability and auto insurance.

OIG Evaluation of Auditee Comments

Comment 1 We determined that the work order clerk's costs are ineligible and require repayment. To support charging these costs to the Asset Management Projects (AMP), officials would need to show that the services were reasonable and necessary in accordance with HUD's standards, which stipulate: "The norm in multifamily housing is that work order processing is a function handled on-site. A PHA [public housing agency] may charge the cost of centralized work order processing only if the PHA documents/justifies that the cost is reasonable and necessary. A prorated front-line administrative function must not cost more than what the project would incur if performed on-site. In all instances, front-line prorated costs must be reasonable, necessary, and based on services provided. AMPs with on-site staff that can provide these functions for themselves may not also be charged these services."[19]

Comment 2 As indicated in footnote 4, we did not include the heating, ventilation, and air conditioning technician's salaries and benefits in the costs that we questioned as ineligible or unsupported. We agree that if properly implemented, fee for service billing procedures should ensure that future costs are properly charged.

Comment 3 We classified the central maintenance coordinator's costs as ineligible because the majority of her tasks were supervisory central maintenance duties, which are not front-line costs and, thus, not chargeable to the AMPs now or in the future. However, Authority officials' planned actions are responsive to our recommendation

Comment 4 The majority of this employee's assigned tasks were for the warehouse, which officials agreed were not eligible. However, during the audit resolution process, if officials provide documentation showing that billable services were provided to the AMPs in accordance with HUD's asset management rules, we would agree that a reasonable amount might not require repayment. When evaluating billable services, HUD should consider that the sweeper operator told us that he did not repair vehicles or change the oil because these functions were contracted.

Comment 5 Authority officials agree that our calculation of the overcharges of $158,880 in fiscal year 2010 is correct, and it is true that we did not include the amount of management and book-keeping fees that Presidential Village may have billed for in 2012 and 2013. However, if officials want to recompute the overcharged amounts for these years, they will have to do so with HUD during the audit resolution process, and if needed, we will provide our calculations.

Comment 6 We agree that some records for maintenance and administrative costs were maintained for 2012. However, the records did not show all of the maintenance

[19] PIH Notice 2007-09 Supplement - Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR Part 990)

services provided by the projects, and there was no evidence that the Federal projects were paid for the services. General ledger entries shown to us on December 3, 2013, disclosed that Baldwin paid the Authority's central operating cost center, not the Federal projects, for the services.

Comment 7 Officials provided no records showing that the referenced checks were credited to the scattered sites cash account(s); thus, we considered the amounts not paid. Regarding the cost of these services, this employee told us she worked for Baldwin up to May 2012; however, we found that officials charged these costs up to September 2012. Therefore, during the audit resolution process with HUD, consideration should be given to removing the portion of costs between June and September of 2012 if the appropriate supporting documentation is provided. To ensure that the AMPs did not pay for any services between May and September 2012, the documentation should show who performed these duties for Baldwin between May and September 2012 and the source of funds used to pay for the services.

Comment 8 We did not review or include mileage and additional expenses in this report.

Comment 9 We agreed and reduced the amount of ineligible public officials' insurance from $74,046 to $11,172 (represents annual cost).

Comment 10 We did not question costs for 2010 and added a footnote to clarify that the $15,262 was charged to the AMPs in 2012 and 2013 ($7,965 in 2012 and $7,297 in 2013). Regarding the 2012 charges; officials provided no basis or support for their $4,000 estimate; however during audit resolution HUD may consider the estimate and adjust the amount requiring repayment if officials provide an adequate basis and support. Regarding the 2013 charges we discussed this issue with the chief financial officer, and he told us that he reversed charges to the AMPs for 2013 and charged non-Federal Baldwin and Chip DIP properties for their share of property insurance for fiscal year 2013. Therefore, during the audit resolution process, if documentation is provided to HUD showing the reversed charges, the $7,292 that we questioned in fiscal year 2013 will not require repayment.

Comment 11 Authority officials agree that the questioned $20,000 is ineligible and should be repaid. However, regarding the additional $10,000, since the Federal projects paid the Authority a management fee in part to maintain a chief financial officer, the $10,000 in additional audit costs incurred as a result of the official's failure to hire a chief financial officer was, in effect, a double payment. Thus, this amount is an ineligible cost to the Federal projects that should be repaid.

Comment 12 The Authority agreed to return the ineligible 2012 transfers and proposed to make transfers for fiscal year 2013. We agree that the 2013 transfers may be made in accordance with HUD's asset management rules for excess cash. However, before the Authority transfers funds in 2013, HUD should ensure that the

Authority properly accounts for Presidential Village's 2012 income and expenses, and properly calculates and reports excess cash for 2012 before it transfers any funds from this AMP to another AMP.

Comment 13 Authority officials agree that their allocation of workers compensation premiums was not accurate, and they also dispute our computations. However, officials need to submit a revised allocation plan to HUD, during the audit resolution period, to support their figures or repay the costs.

Comment 14 Any backup documentation must be provided to HUD during the audit resolution process, and HUD should ensure that the Authority's billing for corporate legal services complies with HUD's requirements[20] in that "legal fees must be directly related to the operation and management of the AMP, including tenant lease enforcement actions, landlord-tenant disputes, and other AMP-related legal matters. Also, any charges to a project conducted by Central Operating Cost Center legal staff must be based on services received by the project and documented by time records."[21] Therefore, any fee for service billing structure must be supported with time records to support the charges, and HUD will need to evaluate the Authority officials' corrective actions and determine whether they are appropriate.

Comment 15 Authority officials' actions are responsive to our recommendation; however, HUD will need to evaluate these corrective actions and determine whether they are appropriate.

Comment 16 We agree that if properly implemented, the actions described should improve monitoring of maintenance productivity. However, to fully address our recommendations Authority officials need to (1) develop and implement procedures to assess the maintenance staff's abilities, (2) ensure that the staff has the necessary skills to perform the required work, and (3) ensure that corrective action is taken when productivity goals are not achieved and provide training as needed.

[20] 24 CFR Part 85, HUD Litigation Handbook 1530.1, REV-5, and PIH Notice 2006-9

[21] PIH Notice 2007-09 Supplement - Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR Part 990) (F.01), table 7.2

Appendix C

OIG ESTIMATE OF WORKERS COMPENSATION INSURANCE OVERCHARGES AND UNDERCHARGES

Audited workers compensation insurance cost allocation
Based on # of staff - # of claims - and claim amount
(with each factor assigned 1/3 of the total allocation rate)

Program - entity	Charged 2010	Audited amount 2010	Over (under) charged 2010	Charged 2011	Audited amount 2010	Over (under) charged 2011	Charged 2012	Audited amount 2010	Over (under) charged 2012	Over (under) charged by program 2010-2012
Asset mangement project # and name -										
702 - Marina Village	$ 99,452	$ 63,672	$ 35,779	$ 77,589	$ 50,650	$ 26,939	$ 132,897	$ 71,205	$ 61,692	
705 - P.T. Barnum	86,467	60,164	26,303	68,940	47,859	21,081	97,909	67,282	30,626	
706 - Greene Homes	83,806	77,098	6,708	68,642	61,330	7,312	69,412	86,219	(16,807)	
707 - Fireside	46,359	24,979	21,380	35,042	19,870	15,172	49,961	27,934	22,027	
709 - Harborview Towers	46,656	55,560	(8,904)	35,042	44,197	(9,155)	31,526	62,133	(30,607)	
744 - Trumbull Gardens	71,050	78,753	(7,703)	52,140	62,646	(10,506)	77,410	88,070	(10,660)	
781 - Scattered Sites I	55,432	36,597	18,836	49,406	29,112	20,294	67,371	40,926	26,444	
782 - Scattered Sites II	91,689	48,362	43,327	70,829	38,471	32,358	126,848	54,083	72,765	
Public housing asset mangement projects			**$ 135,726**			**$ 103,494**			**$155,482**	**$394,702**
080 - Section 8 program	40,766	111,629	(70,864)	36,108	88,799	(52,691)	40,570	124,836	(84,266)	**(207,821)**
650 - Central operating cost center	$11,874	$76,736	($64,862)	$10,239	$61,042	($50,803)	$14,599	$85,815	($71,216)	**($186,881)**

This table shows how OIG estimated that Authority officials overcharged the Authority's asset management projects $394,702 and undercharged the Section 8 program and central operating cost center $207,821 and $186,881, respectively, during fiscal years 2010 through 2012.

This cost allocation plan allocates costs to each entity based on three factors: (1) the number of staff members in each entity, (2) claims of more than $1,000, and (3) the claim amount for each entity. We believe this methodology is reasonable because it accounts for all employees that benefited from the insurance and places equal weight on the factors that affected the amount of premiums the insurance company charged.