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TO: Jennifer Gottlieb-Elazhari, Program Center Coordinator, Office of Public Housing, Hartford Field Office, 1EPHP
Craig Clemmensen, Director, Departmental Enforcement Center, CACB

FROM: 
John Dvorak, Regional Inspector General for Audit, (Boston) Region 1, 1AGA

SUBJECT: The Housing Authority of the City of Stamford, CT, Did Not Properly Administer and Oversee the Operations of Its Federal Programs

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Stamford, CT's administration of its Federal housing programs¹ based on an anonymous complaint. Our objective was to determine whether the Authority followed U.S. Department of Housing and Urban Development (HUD) requirements and its own policies and procedures in the administration of its Federal housing programs.

What We Found

The Authority did not properly administer its Federal programs in accordance with HUD requirements, Federal regulations and laws, its own policies and procedures and its annual contributions contracts. Specifically, it failed to

¹ Federal programs included Operating Fund, Section 8 programs (including the Housing Choice Voucher program, Section 8 Moderate Rehabilitation program, and Section 8 Moderate Rehabilitation Single Room Occupancy program), and Capital Fund programs. The Authority was also awarded an American Recovery and Reinvestment Act grant in 2009 and HOPE VI Revitalization grant in 2003.

- Fully reconcile its interprogram transactions in its revolving fund account;
- Maintain adequate supporting documentation to demonstrate that it properly charged salaries and associated costs;
- Comply with HUD procurement regulations and its own procurement policies;
- Pay only eligible, supported, and necessary program expenses;

As a result, the Authority 1) improperly wrote off a \$2.6 million dollar interprogram imbalance as a prior period adjustment, and had more than \$7.5 million in unsupported transactions recorded in its interprogram accounts, 2) could not show that at least \$7.6 million in salaries and related costs were properly charged to federal programs, 3) could not demonstrate that more than \$2.5 million in contract costs charged to Federal programs were reasonable program expenses, 4) paid more than \$95,000 in questioned costs charged to federal programs that were not eligible or supported program expenses. Further, based on the nature and extent of the multiple significant areas of noncompliance, the Authority may be in substantial default with its annual contributions contracts.² Additionally, the lack of adequate internal controls in place at the Authority put it at a higher risk for potential fraud, waste, and abuse.

What We Recommend

We recommend that the Program Center Coordinator of HUD's Hartford Office of Public Housing inform the Deputy Assistant Secretary for Public and Indian Housing for Field Operations of the Authority's potential substantial default with section 17 of the Annual Contributions Contract and require the Authority to (1) support more than \$17.7 million in unsupported costs identified during the audit related to interfund transactions, cost allocation, procurement, and questionable disbursements; (2) repay any amounts it cannot support; and (3) repay the \$49,095 in ineligible costs identified during the audit. We also recommend that HUD provide technical assistance to the Authority to establish an effective procurement system and that the Authority's management and staff are properly trained regarding Federal procurement requirements.

Finally, we recommend that the Director of HUD's Departmental Enforcement Center review the actions of the Authority's board of commissioners, executive director, former executive director, and consultants and take appropriate administrative actions if warranted.

² HUD may determine that events have occurred or that conditions exist that constitute a substantial default if a public housing authority is determined to be in violation of Federal statutes, including but not limited to the United States Housing Act of 1937, or in violation of regulations implementing such statutory requirements, whether or not such violations would constitute a substantial breach or default under provisions of the relevant annual contributions contract (24 CFR (Code of Federal Regulations) 901.200).

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please also furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority the report on February 21, 2012, held an exit conference with officials on February 23, 2012, and received auditee comments on March 2, 2012. The Authority generally agreed with the findings and recommendations and has begun implementing some of the recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. We did not include in the report all of the attachments provided with the Authority's response due to the volume of documents provided, however, it is available upon request.

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BACKGROUND AND OBJECTIVE

The United States Housing Act of 1937 established the Federal framework for government-funded affordable housing. The United States Congress established public housing to promote the general welfare of the United States by employing the funds and credit of the United States to assist cities such as Stamford in providing decent and safe dwellings for low-income families. The U.S. Department of Housing and Urban Development (HUD) disperses funds to public housing agencies under annual contributions contracts to provide funding for housing assistance for eligible, low-income families.³ One amendment to this Act, the Quality Housing and Work Responsibility Act of 1998, created the Housing Choice Voucher program. This program provides HUD funding to public housing authorities to pay rental subsidies directly to multifamily housing owners on behalf of eligible tenant families.

The Housing Authority of the City of Stamford, doing business as Charter Oak Communities, was incorporated under the laws of the State of Connecticut. The Authority operates under a board of commissioners form of government to provide safe and decent housing to low- and moderate-income families and elderly individuals. In addition to these developments, the Authority operates State-owned elderly and moderate rental developments. The Authority also had four component units: North Street Elderly Housing Corporation (NSEHC), Stamford Elderly Housing Corporation (SEHC), Glenbrook Road Elderly Housing Corporation (GREHC), and Rippowam Corporation. SEHC and GREHC are not-for-profit corporations created to provide housing and social economic opportunities for the benefit of low- to moderate-income elderly people. NSEHC is the corporate general partner of a separate limited partnership, and Rippowam Corporation, the Authority's instrumentality, is a wholly owned subsidiary and acts as a developer, stockholder, fundraiser, and umbrella services company for the Authority. These entities are considered to be component units because of their close association with the Authority.

The Authority's fiscal years 2008 and 2009 independently audited financial statements contained several findings, including a lack of control procedures evidenced by many accounting errors, the Authority's difficulty in retaining and storing source documentation for accounts payable, and its inability to produce supporting documentation on demand. The auditors also found that the Authority's interprogram accounts did not balance at the end of fiscal year 2009. In addition, certain expenses were incorrectly charged to intercompany accounts for several of the Authority's programs. The auditors concluded that the lack of control procedures over financial reporting and compliance could cause the financial statements to be materially misstated and Federal or State dollars to be used for non allowable costs. The Authority's fiscal years 2009 and 2010 independent public accountant reports noted that the Authority took appropriate action to correct prior findings. The Authority brought in consultants to help with the accounting deficiencies identified and also replaced its accounting staff.

³ The U.S. Housing Act of 1937 is codified at 42 U.S.C. (United States Code) 1437.

The Authority was awarded more than \$61 million in Section 8 assistance, Public Housing Operating Fund grants, and Public Housing Capital Fund⁴ grants for fiscal years 2008 to 2011. The Authority implemented Asset Based Management effective July 1, 2010. The Authority also was also awarded a HOPE VI Urban Revitalization competitive grant in 2003 of more than \$19.5 million.

Year	Section 8 programs	Operating fund	Capital Fund program	Total awarded
2008	\$15,936,898	\$2,637,412	\$1,310,555	\$19,884,865
2009	\$13,598,398	\$2,596,057	\$2,959,420	\$19,153,875
2010	\$19,266,275	\$2,437,695	\$1,210,790	\$22,914,760
Total	\$48,801,571	\$7,671,164	\$5,480,765	\$61,953,500

We received an anonymous complaint indicating that the Authority may not have been properly administering its programs in accordance with requirements. Our objective was to determine whether the Authority properly administered its Federal housing programs in accordance with HUD requirements and its own policies and procedures. Specifically, we wanted to determine whether the Authority

- Properly reconciled its interprogram accounts,
- Properly charged salaries and related expenses to its Federal programs in accordance with Federal requirements,
- Procured its contractors in accordance with Federal procurement requirements,
- Charged only allowable and supported costs to its Federal programs,
- Followed its personnel policies when hiring or promoting staff, and
- Followed its travel policies.

⁴ This amount includes a more than \$1.6 million American Recovery Act Capital Fund grant awarded in 2009.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Properly Administer Its Federal Programs

The Authority failed to properly administer its Federal programs. Specifically, it did not

- Fully reconcile its interprogram transactions in its revolving fund account;
- Maintain adequate supporting documentation to demonstrate that it charged salaries and associated costs in accordance with Federal requirements;
- Maintain adequate documentation to demonstrate that it properly awarded and administered its contracts and purchase orders in accordance with Federal requirements.
- Show that it paid only eligible and supported program expenses;
- Comply with its personnel policies, including hiring its executive director and other staff, maintaining adequate personnel records, and performing interim evaluations; and
- Comply with its travel policies when reimbursing expenses.

This condition occurred because the Authority and its board disregarded or failed to follow Federal regulations and laws, HUD requirements, or its own personnel policies.⁵ Additionally, the board did not fulfill its fiduciary responsibilities to adequately monitor and oversee Authority operations and ensure that adequate internal control procedures were in place and followed, and Authority staff was not always aware of regulations and program requirements. As a result, the Authority (1) had more than \$7.5 million⁶ in unsupported transactions recorded in its interprogram accounts and improperly wrote off a \$2.6 million imbalance as a prior period adjustment,⁷ (2) could not show that at least \$7.6 million in salaries and related costs was properly charged to Federal programs, (3) could not demonstrate that more than \$2.5 million in contract costs charged to Federal programs were for reasonable and supported program expenses, (4) paid more than \$95,000 in questioned costs charged to Federal programs that was not for eligible or supported program expenses, (5) could not assure HUD that it hired the most qualified individuals at the best possible prices in accordance with Federal procurement requirements and its own personnel policies, and (6) could not show that management staff and consultants were reimbursed the proper amount of travel expenses.

Based on the nature and extent of the multiple significant areas of noncompliance, the Authority may be in substantial default with its annual contributions contracts. Additionally, with a lack of adequate internal controls in place at the Authority, there was a higher risk of potential fraud, waste, and abuse.

⁵ See appendix C for criteria used.

⁶ This amount was shown on its unaudited fiscal year 2011 financial data schedule provided to us on January 17, 2012.

⁷ The Authority reversed the \$2.6 million prior year adjustment during our audit, however, was unable to support how it identified the imbalance.

Interprogram Transactions Not Fully Reconciled

HUD requires that any funds deposited into a revolving fund be traceable to their original source program. HUD also requires that payments from a revolving fund for the expenses of a program not exceed the funds deposited into the revolving fund for that same program and used only for that program. For the Housing Choice Voucher program, program receipts may be used only for Housing Choice Voucher program expenditures.⁸

The Authority's revolving fund account had not been reconciled on a routine basis. The Authority had a revolving fund account that it used to hold Federal and State program funds and pay the expenses of its various programs. However, it did not ensure that the payment of expenses from the revolving fund did not exceed the funds on deposit in the revolving fund from each source program as required. Per its unaudited financial data schedule for the period ending June 30, 2011, the Authority had more than \$7.5 million in interprogram transactions recorded in its interprogram accounts.

As of November 30, 2011, Authority records showed that the component program units, including two project-based Section 8 multifamily projects and a nursing home that it managed, and its Section 8 program had inadequate deposits to the revolving fund of more than \$2.7 million. Therefore, State and Federal program funds paid expenses of these programs. According to the controller, the Authority was working towards paying down the amounts owed by its component units. According to the executive director, component unit balances go back two to three years. Therefore, the Authority has loaned Federal funds to these component units without HUD approval, which is a violation of its ACCs and Federal appropriations laws.⁹ The controller stated the Authority had the Section 8 funds available but had not been making monthly transfers to the revolving fund.

In addition to the interfund transactions indicated above, there was a \$2.6 million imbalance in the Authority's interprogram accounts on June 30, 2009. To avoid a disclaimer opinion from the independent public accountant,¹⁰ the Authority made a prior year adjustment, reducing \$2.6 million in its Public Housing Operating Fund account, and reduced equity by \$2.6 million. This write-off was explained on the financial statements as follows: "The prior period adjustment in the Public Housing programs of \$(2,650,172) was for adjustments for prior year interfund

⁸ See appendix C for criteria used.

⁹ Each year Congress appropriates funding for specific HUD programs. Through annual contributions contracts and grant agreements, HUD entrusts housing authorities with this funding to operate Federal public housing projects, fund capital repairs to these Federal public housing projects and provide Housing Choice Vouchers to eligible families.

¹⁰ In 2009, the independent public accountant told the Authority that it needed the interprogram accounts to be reconciled or it would issue a disclaimer of opinion on its 2009 audited financial statements.

transactions improperly recorded as accounts receivable or interfund balances and not expenses.” The Authority reversed its \$2.6 million prior period adjustment during its current independent public accountant audit for the period ending June 30, 2011. The executive director stated that he was uncomfortable with the original 2009 adjustment. The fee accountant stated he had reconciled it; however, neither the Authority or fee accountant was able to provide support showing how it reconciled this amount. According to its independent public accountant and executive director, the reversal of the prior period adjustment made to the Public Housing Operating Fund reserve account was based on additional work that showed that development costs of tax credit replacement properties were not properly accounted for and costs were misclassified as the obligation of the Public Housing Operating Fund program. Therefore, the Authority improperly reduced its Public Housing Operating Fund program reserve account for a two-year period.

These interfund imbalances occurred because the Authority had maintained two separate accounting systems and staff was not properly accounting for transactions of its various programs. Additionally, the Authority did not ensure that expenditures from the revolving fund for a program did not exceed the funds deposited into the revolving fund for that program and that interprogram accounts were reconciled on a routine basis and any imbalances were researched and corrected accordingly. Authority staff was also not aware of HUD requirements and how to properly use the revolving fund account. As a result of these deficiencies, some programs may have overstated expenses, while other programs may have understated expenses. As a result of the Authority’s actions, neither HUD nor the authority had a proper understanding of the expenses of the Authority’s programs.

Inadequate Support for Salary and Related Costs

The Authority did not maintain adequate supporting documentation to demonstrate that it properly charged at least \$6.7 million in salaries and associated salary costs, including payroll taxes and employee fringe benefits, to its Federal programs in accordance with HUD and Federal requirements.¹¹ Specifically, it was not able to provide support, such as salary distribution sheets, for the period January 2008 to February 2010 to show how these costs were charged to its Federal programs and could not provide support to show how more than \$956,000 in undistributed salaries was expensed to its programs. Further, although the Authority had salary distribution sheets for March to June 2010, it could not support the amount or percentages charged for its central office staff and could not always support amounts charged for its maintenance and program staff. For example, 98 percent of the cost for the vice president of administration, executive assistant to the executive director,

¹¹ See appendix C for criteria used.

and buildings and grounds secretary was charged to the Public Housing Operating Fund program. The Authority's cost allocation plan assigned direct cost to the applicable program and generally distributed central office costs to programs on a per unit basis. However, the Authority had not fully implemented this plan and made adjustments to it without adequately documenting the reason for the adjustments.¹² According to its fee accountant, salaries were charged based on what the Authority had available in its budgets. Additionally, the Authority's accounting and executive staff performed work for its instrumentality, and another instrumentality employee performed work for the Authority. However, there was no shared services agreement, time was not tracked, and salary costs were not charged to or by the instrumentality for these employees.

These unsupported costs occurred because the Authority lacked adequate internal controls over cost allocation and record keeping and charged costs based on what it had available in its budgets. Additionally, the Authority assumed the services provided by Authority staff and to the instrumentality, and the services provided to the Authority by an employee of the instrumentality were equal and offset each other. As a result, HUD had no assurance that at least \$6.7 million in salary and associated salary costs charged to Federal programs was for supported program-related costs and that an additional \$956,000 in salary costs was properly allocated to Federal programs. Therefore, the Federal programs may have been overburdened with ineligible costs.

Inadequate Documentation To Support Compliance With Procurement Requirements and Authority Policies

The Authority did not maintain adequate documentation to demonstrate that it properly awarded and administered its contracts¹³ and purchase orders in accordance with Federal requirements and its own procurement policy.¹⁴ Specifically, it

- Failed to maintain a contract register or contract log or adequate procurement files to show the history of the procurement,¹⁵ including documenting the necessity of the procurement and maintaining original procurement documents, evaluations, independent cost estimates, and a justification and cost analysis for sole source contracts;

¹² The Authority also used this cost allocation plan when charging other indirect costs identified throughout the finding, such as procurements, disbursements, and travel costs. Any amounts questioned for these other indirect costs were based on what was charged to the Federal programs.

¹³ Capital Fund procurements reviewed were adequate.

¹⁴ See appendix C for criteria used.

¹⁵ Small purchase procurements were those under \$100,000, and large procurements were \$100,000 or more. We found deficiencies in 7 small purchase procurements and 14 of 15 large procurements reviewed.

- Did not always have written agreements or ensure that its written agreements with the Authority included the total amount of the contract, contract terms, or necessary contract clauses and were signed by the contractor or the Authority;
- Exceeded the board-approved amounts or terms without obtaining additional approval and was not always able to provide board approval for contracts;¹⁶
- Did not document that it reviewed vendor and contractor performance to ensure that vendors and contractors performed the needed services; and
- Paid consultant invoices, including travel costs, without obtaining receipts for travel-related costs.

For example, in eight instances, the total payments to the contractor exceeded the board-approved amount or terms (payments were made after the contract expired); however, the Authority never went back to the board to receive approval to make additional payments or extend the contract. During our audit period, the Authority made more than \$8.9 million in payments to the 15 contractors. As of June 30, 2011, we identified more than \$3.9 million in payments that exceeded the board-approved terms to eight vendors and almost \$1.4 million in payments to four vendors that were not supported by a board resolution. Therefore, the Authority made more than \$5.3 million in payments to these vendors without proper board approval.¹⁷

In one case, the Authority used a contractor for various services, including landscaping work, masonry, painting, asphalt repairs, and other work using contracts that had expired in December 2007 and did not rebid this work until December 2010. This contractor was paid \$3.6 million¹⁸ of which, more than \$3 million was paid from January 2008 to January 2011. The independent public accountant notified the Authority during its fiscal year 2010 audit of the expired contracts,¹⁹ however, the Authority didn't rebid these contracts until December 2010, and instead added a document dated September 16, 2010 stating "*Please consider this memorandum as an addendum to the current contract dated February 2006 for Masonry repair²⁰ at Charter Oak Communities*" to the file. There were also several deficiencies with the rebid of these services such as incomplete documents and contracts, missing contract clauses and contract amounts. The board resolution also did not include a not to exceed amount. The new contracts were effective February 1, 2011.

¹⁶ In two instances, the contract was signed and effective before board approval was received.

¹⁷ Based on its allocation method, not all of the contract costs were charged to Federal programs.

¹⁸ Of this amount, almost \$1.2 million was charged to Federal programs.

¹⁹ This was not included in the independent public accountant audit report in fiscal year 2010, but was included in its management discussion points to the Authority.

²⁰ The agreement provided to us for masonry work had actually expired in 2004.

The Authority also paid gas charges that were not part of its agreements with this contractor. According to the chairman and vice chairman of the board, they were not aware that contracts exceeded the approved amount.

In another example, the Authority circumvented procurement requirements when it hired two different consulting firms to perform similar accounting services for the Authority under two separate requests for proposals. Specifically, while the Authority was putting together the second request for proposal, the Authority allowed the first consulting firm to bill for services performed by an employee of the second consulting firm. This person was not an employee of the first consulting firm.²¹

This condition occurred because of inadequate monitoring and oversight by the board, the Authority's inadequate internal controls over the award and administration of its contracts and purchase orders, its lack of a purchase order and encumbrance system, and inadequate record keeping and because management and staff were not familiar with or circumvented procurement regulations. As a result, the Authority could not assure HUD that its procurements were competitive and complied with Federal procurement requirements and that more than \$2.5 million²² in costs charged to its Federal programs was reasonable and supported.

\$95,578 in Ineligible and Unsupported Costs

The Authority charged more than \$95,000 in questioned costs, including \$49,095 in ineligible costs and \$46,483 in unsupported costs, to its Federal programs that did not meet Federal requirements.²³ The Authority paid for (1) flowers and gift baskets for employees and board members and food for Christmas parties, Halloween parties, and other meals, including catered board meetings; (2) donations to charities and contributions for sponsor support of conferences; (3) a \$15,000 restoration of a mural, which was misclassified and not an eligible HOPE VI demolition expense; and (4) \$2,400 in gas charges to its former executive director and \$500 to its deputy director and based on available documentation, also paid more than \$11,000 in gas charges to one of its contractors.²⁴

The current and former executive directors, the former deputy director, and the chief operating officer also charged several meals on Authority-issued credit cards at local restaurants in Stamford, CT, and surrounding towns. Both the current and

²¹ There were other deficiencies identified with this procurement and with the procurement for consultant two.

²² Based on the Authority's allocation method, not all procurement costs reviewed were charged to Federal programs.

²³ See appendix C for criteria used.

²⁴ There was no agreement in place allowing the Authority to pay for these costs.

former executive directors also charged food for board meetings to their credit cards, in some cases, from high-end restaurants, and the charges were sometimes \$500 or more. In several instances, both the current and former executive directors charged to their credit cards what could be considered extravagant meals. For example, the current executive director, chief operating officer, and chairman of the board went to dinner at a high-end restaurant, and the bill was more than \$300, which averaged \$100 per person. Most of the receipts did not show what was purchased. These meals were not eligible program expenses and must be repaid to the Authority's Federal programs.

Additionally, the former executive director rarely submitted receipts for expenses charged to his Authority-issued credit card, including meals and local hotel stays. All meals and hotel stays that he charged were ineligible costs, and all other costs paid for by the Authority for credit card charges were unsupported. The Authority also did not always pay its credit card bills on time and incurred \$620 in late fees and finance charges.

Additionally, in one instance, a check was voided and did not show up as paid on the Authority's bank statements; however, it was shown as a paid expense in the Authority's cash disbursement journal and was not voided. The Authority was not able to provide support for several payments. Therefore, the eligibility of the payments could not be determined.

This condition occurred because the Authority lacked internal controls to ensure that costs charged to Federal programs were eligible and supported costs. Specifically, (1) requests for payments were signed off on and paid without supporting documentation or an explanation as to why the expense was a necessary and reasonable program expense, (2) the Authority did not have controls in place to ensure that employees were not paid twice for the same expense (through an advance and then again on a travel reimbursement), (3) the Authority did not have adequate controls to ensure personal charges on the credit cards were eligible expenses, and (4) the Authority did not have adequate controls to ensure that bills were paid in a timely manner to avoid late fees and finance charges. As a result, more than \$95,000 in disbursements may not have been used for their intended program purposes to assist low-income households and were questionable.

Personnel Policies Not Followed

The Authority and its board also did not comply with its personnel policies, including hiring its executive director and other staff, maintaining adequate personnel records, and performing interim evaluations. This noncompliance occurred because the board disregarded the Authority's personnel policy and Federal procurement²⁵ requirements when it replaced the executive director in

²⁵ See appendix C for criteria used.

January 2009 with a consultant that had been working for the Authority. The board also disregarded its legal counsel's advice to amend its personnel policies so that it could fill positions on a temporary basis without following its personnel policies before it made the interim executive director the executive director in March 2010. As a result, HUD had no assurance that the most qualified staff was put into place to correct the serious deficiencies identified by outside consultants and auditors in the most timely and efficient manner and at the lowest salaries consistent with other salaries in the area.

Executive Director

The board disregarded Authority personnel policies and procurement requirements when it replaced its executive director. It appointed a long-time Authority consultant as its interim executive director effective January 9, 2009, and its January 2009 board minutes and a board resolution showed that there would be a search committee to find a permanent executive director.²⁶ However, the board entered into an agreement with the instrumentality for acting executive director services, effective March 26, 2009, instead of performing a search for an executive director. Although there was an employment agreement in place between the instrumentality and the consultant, he was paid under his expired consultant contract up to July 2009 and did not become an employee of the instrumentality until July 2009.²⁷ Therefore, the board was required to follow procurement regulations since it elected to use a consultant rather than an employee as its interim executive director. The board also did not post the available position in accordance with its personnel policy. Further, it failed to follow legal advice from its counsel, who recommended that the board amend the Authority's personnel policies before it filled positions on a temporary basis without following its personnel policies.²⁸ When the board renewed its agreement with the instrumentality to continue to provide executive services in March 2010, it also revised its scope of services from an acting executive director to an executive director; thereby making the position permanent.²⁹

The Authority's instrumentality hired the acting executive director at a salary of \$239,500 in July 2009.³⁰ Its former executive director's base salary was \$170,000. Base salary of a Level IV Executive according to the 2012 Executive Schedule was \$155,500. Therefore, the Authority may not have paid the best

²⁶ The interim executive director signed an employment agreement with the instrumentality as vice president, effective January 1, 2009.

²⁷ On July 8, 2009, the interim executive director became the president of the instrumentality under an addendum to the January 1, 2009, employment agreement.

²⁸ The board sought this advice before renewing its agreement with the instrumentality for executive director services in March 2010.

²⁹ The instrumentality renewed its president's employment agreement, effective April 1, 2010.

³⁰ This amount was for his base salary only.

possible price for this position and may be incurring ineligible costs for fiscal year 2012.³¹

Further, the chairman of the instrumentality's board of directors, who was also the chairman of the Authority's board, authorized an improper payment of \$18,275 to the interim executive director for retirement compensation in accordance with his January 2009 employment agreement, although he was not an employee of the Authority or its instrumentality during that period.³²

Deputy Director and Other Positions

The board also did not ensure that the Authority followed its personnel policies when it replaced its deputy director and other staff. The Authority replaced its deputy director with its director of human resources without posting the position.³³ This individual was promoted 6 months later to a newly created position of chief operating officer, which included a \$35,000 salary increase to \$175,000, although this position was still essentially that of the deputy director and vice president of administration. Base salary of a Level IV Executive according to the 2012 Executive Schedule was \$155,500. Therefore, the Authority may not have paid the best price for this position and also may be incurring ineligible costs for fiscal year 2012.

The Authority also could not always show that it posted positions internally or externally to obtain a qualified pool of applicants and allowed consultants to apply under internal job postings. In addition, the Authority posted some positions and rather than hiring the applicant as an employee, it first hired him or her as a consultant and later as an employee under an internal job posting. Therefore, it also did not follow proper procurement requirements for hiring consultants and temporary labor and may not have paid the best possible prices. In one instance, the Authority hired a temporary labor employee without performing a background check, and this person had a violent criminal record and had been recently released from prison. The Authority was not able to provide support to show the position for which this person was hired or that this individual was qualified to perform the work.

³¹ The FY 2012 Appropriations Act in general requirement section 234 states that none of the funds made available by this Act for purposes authorized under section 8 (only with respect to the tenant-based rental assistance program) and section 9 of the United States Housing Act of 1937 (42 U.S.C.1437 et seq.) may be used by any public housing agency for any amount of salary, for the chief executive officer of which, or any other official or employee of which, that exceeds the annual rate of basic pay payable for a position at level IV of the Executive Schedule at any time during any public housing agency fiscal year 2012. (b) Subsection (a) shall take effect 120 days after the date of enactment of this Act.

³² This amount was paid for with State program funds and charged to the Authority's accounts and not the instrumentality.

³³ The revised job title was vice president of administration.

Inadequate Personnel Records

The Authority did not always maintain adequate personnel records for its staff. For example, it did not have in its files basic personnel documentation for its executive director and chief operating officer or a former director of finance, including an application, resume, or reference checks. There had been improvements in the documentation in the personnel files for employees that it had hired within the last year or so. The Authority also did not always perform or document that interim evaluations were performed in accordance with its personnel policies.

Travel Policies Not Followed

The Authority did not always pay the correct travel reimbursements to its management and consultant staff. It also did not consistently follow its travel policy.³⁴ For example, the executive director attended a conference in August 2009 and booked a hotel room for the night. However, he decided not to spend the night before the cancellation deadline but did not cancel the reservation before the deadline. The Authority paid for the hotel room and was not repaid for the per diem advance he received for meals and incidentals. This charge could have been avoided if the executive director had canceled the hotel room in a timely manner. In another example, the former executive director, current executive director, and an employee of the Authority's instrumentality were paid twice for meals. They received a check for per diem according to the Authority's travel policy and charged meals on Authority credit cards while they were in travel status during the same period. In another example, the chief operating officer used the hotel rate of \$211 and requested and received an advance for that amount instead of the correct meals and incidentals rate of \$71 for her trip. There was no control in place to ensure that the correct rate was used. After we brought this matter to the Authority's attention, the chief operating officer wrote a check to the Authority for the overpayment.

The Authority also paid travel expenses for two of its consultants and an employee of its instrumentality, which was not covered in the Authority's travel policy or its contracts with these consultants. The Authority paid the travel expenses of consultants without adequate supporting documentation such as hotel bills and receipts. It also paid these consultants 100 percent per diem for every day they worked. However, the Authority could not ensure that they were on travel status as hotel receipts were not provided.

This condition occurred because the Authority did not have the necessary controls in place to ensure that it paid the correct travel costs. Specifically, the Authority lacked controls to ensure that

³⁴ See appendix C for criteria used.

- Travel expenses were paid only once,
- Management’s travel expenses were properly reviewed and approved,
- The correct per diem rates were used and only 75 percent of per diem was provided on the day of departure and the last day of travel,
- Travel costs were paid only for travel that actually took place and to cover actual expenses incurred,
- Travel costs were paid only to individuals covered under its travel policy, and
- Travel costs were necessary and supported.

As a result, the Authority paid excess travel expenses to management staff and contract consultants.³⁵

Conclusion

The Authority did not properly administer its Federal programs because it and its board disregarded or failed to follow Federal regulations and laws, HUD requirements, and its own personnel policies and Authority staff was not always aware of regulations and program requirements. Additionally, with a lack of adequate internal controls in place at the Authority, there was a higher risk of potential fraud, waste, and abuse. Based on the multiple significant areas of noncompliance identified during the audit, it was evident that the board did not meet its fiduciary responsibilities to adequately monitor and oversee Authority operations and ensure that adequate internal control procedures were in place and followed. Although the board took some action to correct the deficiencies identified by its independent public accountants, it did not ensure that there were adequate internal controls in place to ensure that Federal program funds were used for their intended purpose and in accordance with Federal requirements and Authority policies and procedures or that it and Authority staff followed these requirements. Based on the nature and extent of the multiple significant areas of noncompliance, the Authority may be in substantial default with its annual contributions contracts..

The Authority had begun taking steps to improve its internal controls and address deficiencies identified during the audit. It developed a shared service agreement with its instrumentality. It also had engaged an independent third-party contractor to review its payroll and accounting records to support salary and associated costs charged to Federal programs. The Authority stated it had implemented a work order system to track time of maintenance and other personnel, had developed policies and procedures, and provided training regarding its use. It had brought in

³⁵ Travel related expenses were included in the \$95,000 in questioned costs and in our review of large purchase procurements.

a third-party contractor to help improve its procurement process and provide training to its staff, developed a procurement manager position, checklist and contract register, and plans to use an electronic procurement system. The Authority had also developed a journal voucher approval policy during the audit and updated its procurement policies.

The Authority updated its travel policy during our audit to address some of the issues identified; however, it needs to follow its travel policy and put adequate procedures in place to ensure that it pays the correct travel costs to employees and consultants. It needs to ensure that it has adequate procedures in place to ensure that it does not charge Federal programs for ineligible costs and maintains adequate records in accordance with Federal requirements. In response to the findings by its independent public accountant, the Authority made improvements to the general ledger and accounting system, and merged various programs to one accounting system and began performing a monthly reconciliation to ensure that the interfund account transactions and revolving fund account transactions were in balance. However, the Authority did not ensure that interfund balances were timely settled. The Authority stated it had settled all but \$1,478,950 and was taking steps to settle this amount. The Authority needs to provide support to HUD showing that it has settled all amounts. Further, if it cannot settle the amount owed by its component units timely, HUD should require the Authority perfect these loans, repay them with interest and penalties, and take administrative action as deemed necessary.

Recommendations

We recommend that the Program Center Coordinator of HUD's Hartford Office of Public Housing:

- 1A. Inform the Deputy Assistant Secretary for Public and Indian Housing for Field Operations of the Authority's potential substantial default with section 17 of the Annual Contributions Contract.
- 1B. Provide technical assistance to the Authority to establish an effective procurement system.
- 1C. Prohibit the Authority from using the revolving fund account.

We also recommend that the Program Center Coordinator require that the Authority

- 1D. Reconcile and settle any amounts owed from the \$7,505,433 in transactions recorded in its interprogram accounts as of its fiscal year end, June 30, 2011.

If the Authority does not timely settle the amounts owed by its component units, require that the Authority perfect these loans and repay them with interest and penalties, and take administrative action, as deemed necessary.

- 1E. Obtain an independent third party to determine the source and application of the funds that were part of the prior year adjustment and subsequent reversal. Any funds inappropriately paid out of HUD program funds should be reimbursed to HUD or the HUD program from non-Federal funds.
- 1F. Provide monthly accounting reports to HUD by the 30th of the succeeding month that address all HUD-funded programs, showing each program's assets and liabilities, and should also include its balance sheet, revenue and expenses statement, statement of cash flows, and a comparison of budgets to actual costs.
- 1G. Support the \$6,711,801 in unsupported salary and related costs charged to Federal programs, determine any additional unsupported salary and benefit costs, and repay any amounts that it cannot support with non-Federal funds.
- 1H. Determine how much of the \$956,484 in undistributed salaries was expensed to Federal programs and repay any unsupported amounts.
- 1I. Properly track and charge costs to the instrumentality for services provided by Authority staff. HUD should review the January 2012 shared service agreement executed with its instrumentality and ensure it is adequate and that the Authority properly implements it.
- 1J. Support that \$2,506,434 in contract costs charged to Federal programs was reasonable and supportable, and repay any amounts it cannot support with non-Federal funds.
- 1K. Establishes an adequate encumbrance system to ensure that costs do not exceed contract and purchase order terms and prices without proper approval.
- 1L. Properly trains its management and staff regarding Federal procurement requirements.
- 1M. Repay with non-Federal funds \$49,095 in ineligible costs identified during our review of disbursements that was charged to its Federal programs.
- 1N. Provide supporting documentation for \$46,483 in unsupported costs identified during our review of disbursements and if adequate support cannot be obtained, repay any amounts it cannot support from non-Federal funds.

We further recommend that the Program Center Coordinator ensure that the Authority

- 1O. Establishes, documents, and follows sufficient internal controls for ensuring that salaries and other expenses are properly charged in accordance with requirements.
- 1P. Establishes, documents, and follows sufficient internal controls for the award and administration of its procurements and contracts that are consistent with HUD and Federal procurement regulations requirements and ensure that the Authority obtains approval from the Board for any contracts that exceed the Board approved amount.
- 1Q. Establishes, documents, and follows sufficient internal controls for the disbursement of funds requirements including ensuring costs are allowable and supported costs.
- 1R. Establishes, documents, and follows sufficient internal controls for hiring and promoting staff, including interim/temporary appointments, maintaining adequate personnel records, and performing interim evaluations requirements.
- 1S. Establishes, documents, and follows sufficient internal controls for travel reimbursement procedures including controls to ensure the Authority is paying the correct travel costs, including 1) reviewing travel documents and comparing them to credit card statements to ensure it is not paying for the same expenses twice, 2) reviewing management's travel advances and reimbursements, 3) requiring the Authority to obtain supporting documentation from management, employees, and consultants for reimbursement requests to ensure they were actually incurred and are allowable, and 4) requiring the Authority to stop reimbursing travel costs to consultants and other individuals who are not Authority employees unless it is stipulated in the consultants contract or included in the Authority's travel policies.

We recommend that the Director of the Departmental Enforcement Center

- 1T: Consider taking administrative action against responsible parties including the Authority's board of commissioners, executive director, former Executive Director, independent auditors and consultants.

SCOPE AND METHODOLOGY

We conducted our audit between June 2011 and February 2012. We completed our fieldwork at the Authority's office located at 22 Clinton Avenue, Stamford, CT. Our audit covered the period January 2008 through December 31, 2010, and was extended when necessary to meet our audit objective.

To accomplish our audit objective, we

- Reviewed program requirements including Federal laws, the Code of Federal Regulations, public housing handbooks, public housing guidebooks, public and Indian housing notices, and consolidated annual contributions contracts between HUD and the Authority.
- Interviewed Authority staff, board members, and consulting and contractor staff used by the Authority.
- Reviewed policies and procedures in place at the Authority to determine policies and procedures to be tested.
- Reviewed audited financial statements, general ledgers and disbursement journals, and cost allocation plans as part of our testing for control weaknesses.
- Reviewed and tested the Authority's internal controls over cost allocation, interprogram transactions, procurements, disbursements, credit card charges, hiring of staff, and travel costs to determine whether the Authority properly established and implemented internal controls. Computerized data were critical to the analyses of cost allocations and disbursements. To assess the data, we interviewed staff about the payment process, compared allocation plans to salary charges, tested for duplicate checks, and examined the process for voiding checks. We did not rely solely on the data but reviewed source documentation when available. There were data reliability issues in the Authority's accounting system as discussed in our finding.
- Reviewed the Authority's interprogram accounts to determine whether the Authority had established and implemented appropriate policies and procedures for accounting for interprogram funds and the use of a revolving fund for its Federal programs, State programs, and nongovernmental component units.
- Reviewed the Authority's cost allocation plan to determine whether the plan had an appropriate basis, the Authority had implemented the plan across programs, and the Authority had distributed expenses consistently to ensure that expenses were charged to the benefitting program.

- Selected a nonstatistical sample of 7 small purchase vendors and 15 large procurement vendors from a universe of 1,211 vendors that received more than \$55.1 million from the Authority via small purchase procurements. Collectively, these 22 vendors received more than \$8.8 million. We used a nonstatistical sample instead of 100 percent selection or representative selection sampling methods because we wanted to focus on higher risk areas identified during our review including temporary labor employees and consultants, contractors that received payments during our audit period that were not included on a list of contracts provided by the Authority, food caterers, and other vendors brought to our attention during the audit.
- Obtained and reviewed credit card statements for the period January 2008 to June 2011 to determine whether charges were eligible, supported, and reasonable in price.
- Selected a nonstatistical sample of 89 checks from a universe of 4,515 checks totaling more than \$19.6 million. Collectively, these 89 checks totaled \$309,743. We used a nonstatistical sample instead of 100 percent selection or representative selection sampling methods because we wanted to focus on higher risk areas identified during our review including payments to consultants, employees, board members, restaurants, donations, and payments made for gas charges for vehicles.
- Reviewed hiring and promotions to determine whether they were performed in accordance with the Authority's personnel policies.
- Reviewed travel payments and the Authority's travel policy to determine whether its policy was adequate and properly implemented.

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 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:

- Controls over interprogram transactions.
- Controls over cost allocation.
- Controls over expenditures to ensure that they are eligible, necessary, and supported.
- Controls over procurements.
- Controls over the hiring and promotion of staff.
- Controls over travel reimbursements.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Insufficient controls for reconciling and settling interprogram payables and receivables (finding 1).
- Inadequate controls to support salary and related costs charged or allocated to Federal programs (finding 1).
- Inadequate controls to ensure that costs are eligible and supported program costs (finding 1).
- Inadequate controls to show compliance with procurement requirements (finding 1).
- Inadequate controls to show compliance with personnel policies (finding 1).
- Inadequate controls to show compliance with travel policies (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

The audit identified \$17,775,730 in question costs as follows:

Recommendation number	Ineligible 1/	Unsupported 2/
1D.		\$7,505,433
1G.		\$6,711,801
1H.		\$956,484
1J.		\$2,506,434
1M.	\$49,095	
1N.		\$46,483

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



CHARTER OAK
COMMUNITIESSM

March 2, 2012

John A. Dvorak
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Region I
Thomas P. O'Neill Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Dvorak:

Thank you for sending a copy of the Office of Inspector General for Audit's draft audit report, and for providing Charter Oak Communities (COC) the opportunity to submit a written response. We appreciate the time and effort that your staff has devoted to compiling the draft report and we look forward to working with your team and the HUD Field Office to present our position on the issues cited in the report.

The response prepared by COC addresses each of the items enumerated in the audit report, and includes sections prepared by our outside auditor and fee accountant as well as by COC staff. While COC agrees with a number of the findings contained in the audit report, we will provide documentation, both in this response and subsequently, that addresses and resolves many of the audit findings. We believe this information will demonstrate that the Board and current staff of COC have acted appropriately to address financial management issues, given the complexity and variety of the Agency's programs, and the staffing changes necessary to correct long-standing problems.

Our response also attempts to place the period covered by the audit in the context of events at COC during the audit period, and in the years immediately preceding and following. We believe an understanding of this historical context is essential in evaluating many of the items cited in the audit report, and the actions taken by COC both before and since the audit began. The years covered by the audit (2008 through 2010) were a period of dramatic change at COC, and we continue to implement an aggressive program of improvements and corrections in many operational areas as a result of efforts commenced in 2008. Although COC has made significant and demonstrable progress since the Board initiated this process, we will continue until every aspect of COC operations, including financial management, is considered superior under the applicable evaluation system.

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Ref to OIG Evaluation

Auditee Comments

In the second half of 2008, the COC Board of Commissioners initiated and completed an extensive evaluation of the senior management and concluded that significant changes were required. The Board retained an experienced outside consultant to conduct the evaluations and assist in designing and implementing the transition. The Board devoted considerable time and energy to this effort in order to ensure the process was complete and fair and that the actions taken were appropriate.

January 2009 saw the initiation of major changes at COC, including the departure of the Executive Director, Deputy Director, Director of Finance, and Director of Buildings and Grounds. An Interim Executive Director was appointed, and other hires occurred with the goal of stabilizing operations as the new team conducted detailed assessments of each COC department and function. The goal of this effort was to minimize the impact on our properties and programs, including an aggressive, multi-phase HOPE VI revitalization program while identifying problems and developing corrective measures. Consequently, 2009 was largely a year of evaluation, prioritization, and planning for the transition required to ensure the highest levels of financial integrity and control. In addition, because many COC personnel are unionized (comprising four separate bargaining units), staff changes had to be implemented cautiously and strategically. The actions taken by the Board and new management team during the year demonstrate a clear commitment to improving the full range of Agency operations.

In early 2010, significant additional changes began to be implemented in staffing, policies, and practices, including many directly related to findings that were subsequently identified in the audit report. Our recognition that serious problems existed in the Finance Department is evidenced by the complete turnover of the management and staff in late 2009 and through 2010. COC's senior management team and Finance Department management and staff have made great strides in addressing the most critical deficiencies discovered in 2009, including several of those mentioned in the audit report. As the HUD audit report acknowledges, the independent audits conducted of COC for fiscal years 2009 and 2010 note that COC took appropriate action to correct prior findings, and it retained consultants to help correct accounting weaknesses. The OIG audit report also acknowledges that COC has already taken steps to address and correct some of the problems identified by the HUD audit team.

We are confident that COC will be able to adequately address and support most of the expenditures and transactions that the audit report designates as currently without sufficient documentation. We are also confident that COC's actions in initially implementing, and later reversing, the prior period adjustment were appropriate given the information available and the specific advice of our independent outside professional consultants. The information contained in this initial response will be supplemented in the near future with additional documentation. We look forward to working with HUD to ensure that COC operates at the highest level of efficiency and regulatory compliance while providing exemplary housing and services to our clients.

Sincerely,



Vincent J. Tufo
Executive Director & CEO

**HOUSING AUTHORITY OF THE CITY OF STAMFORD
D/B/A CHARTER OAK COMMUNITIES**

**RESPONSE TO OFFICE OF INSPECTOR GENERAL
DISCUSSION DRAFT REPORT – February 21, 2012**

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with Procurement Requirements and Authority Policies
- Finding 1D: \$95,578 in Ineligible and Unsupported Costs
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- Recommendations

Ref to OIG Evaluation

Auditee Comments

Comment 1

1A: Interprogram Transactions Not Fully Reconciled:

“...there was a \$2.6 million imbalance in the Authority’s interprogram accounts on June 30, 2009” (OIG 2/21/12 discussion draft audit report, page 8)

The FY2009 Prior Period Adjustment and the FY2011 reversal were strictly balance sheet transactions. At no time, did any federal funds leave the Authority as a result of these transactions. No federal funds were missing, improperly expended or misused in any way.

The Authority maintains a Revolving Fund account to pay expenses of its various programs. Currently no official HUD regulatory language exists regarding use of a revolving fund. PHAs are governed by Generally Accepted Accounting Principles (“GAAP”) and REAC accounting briefs which also do not reference revolving funds. The ACC does reference the “pooling” of funds, which is generally accepted to have the same meaning as a revolving fund. Most medium and large PHAs utilize revolving funds.

The Authority is a complex reporting entity incorporating federal low income public housing (LIPH), Voucher programs, state-assisted housing, HUD-assisted multi-family housing, low income housing tax credit entities and several other housing programs. Prior to FY2011, the financial records of the Authority were fragmented and internal controls were lacking. The Finance Department was minimally functional. In late 2009, the Authority and its fee accountant, Palazzo and Company, struggled to close its books for fiscal year 2009 (FYE 6/30/09) because Finance Department staff was not properly accounting for real estate development activities related to HOPE VI development, Program Income and other redevelopment activities. In FY2009, the Authority was maintaining two separate accounting systems – ACPAC and HAB. It was not fully integrating the financial transactions related to development activity, run on ACPAC, with the Revolving Fund which was run on HAB.

Comment 2

Based upon the work of the fee accountant, the FY2009 unaudited financial statements included \$2.6 million in miscellaneous accounts receivable to the Revolving Fund. In its review, the independent auditor, Hurley, O’Neill & Company, stated the balance was unsupported and indicated a need to qualify or disclaim its opinion if the balance remained as stated. On that basis, the fee accountant advised the Authority that it should satisfy the receivable by making a Prior Period Adjustment (PPA), charging the LIPH Operating Reserve account in the amount of \$2.6 million. This decision was based upon an assessment by the fee accountant that all non-LIPH programs were materially accounted for, as costs were assigned to those programs by the Authority, and that the only appropriate source for the receivable was the LIPH program. In order to close the FY2009 books under GAAP, the Authority staff accepted the recommendation of the fee accountant and concluded that the Prior Period Adjustment was the appropriate entry. The Prior Period Adjustment was fully disclosed by the Authority in the FY2009 audited financial statement through Note 19 to that statement. The independent auditor concurred with the entry and this audit was issued as an “Unqualified” opinion with “No Material Weaknesses” as to the FY2009 financial statement. *See attached statements from Hurley, O’Neill & Company and fee accountant Mr. Robert Fetrow, formerly of Palazzo and Company.*

Ref to OIG Evaluation

Auditee Comments

Comment 3

By FY 2011, in close coordination with the Board and with oversight by the Finance Committee, full functionality had been restored to the Authority's Finance Department and more accurate financial information was available. The Authority had completely re-staffed the Department, restructured its general ledger, improved its accounting software capabilities, merged the two separate accounting systems, enacted a self-balancing inter-fund system and reconciled all prior inter-fund balances. These steps resulted in a materially correct reconciliation of the Authority's inter-fund balances as well as improved Finance staff understanding of the Revolving Fund. These overall improvements enabled the fee accountant and Authority staff to reconcile the prior balances which led to the FY2009 PPA. As mentioned previously, the reconciliation indicated that there were previous development costs of tax credit replacement projects that had not been properly accounted for. These development costs were misidentified in 2009 as the obligation of the LIPH Operating Reserve. Based upon this updated information, the Authority reversed the FY 2009 PPA, restoring the \$2.6 million to the LIPH Operating Reserve.

"Per its unaudited financial data schedule for the period ending June 30, 2011, the Authority had more than \$7.5 million in interprogram transactions recorded in its interprogram accounts." (OIG 2/21/12 discussion draft audit report, page 8)

Comment 4

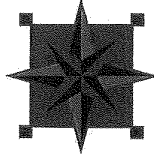
The \$7.5 million represents interprogram payables (i.e. receivables to the Revolving Fund): payments due from individual programs to the Revolving Fund. These transactions were all properly accounted for as individual program expenses and are, thus, not unsupported expenses but rather unsettled transactions. This amount should, therefore, not be classified as "unsupported" but as "unsettled" in the audit and in the Schedule of Questioned Costs on page 24. Since June 30, 2011, the Authority has settled the vast majority of these payables and has reduced the outstanding amount to \$1,478,950. It is taking further steps to settle the current amount and will maintain a zero outstanding balance going forward. This will be documented to the HUD Field Office on a monthly basis.

Attachments:

- *Statement from fee accountant, Mr. Robert Fetrow*
- *Statement from independent auditor, Hurley O'Neill & Company*

Ref to OIG Evaluation

Auditee Comments



HSF Consulting LLC
Attaining Synergy in Financial and Operational Structures

Hayley S. Fetrow, Esq, *Principal*
617.719.4873

Robert Fetrow, *Principal*
617.842.3474

February 29, 2012

Housing Authority of the City of Stamford
d/b/a Charter Oak Communities
22 Clinton Avenue
Stamford, CT 06901

To the Management and the Board of Commissioners,

The HUD OIG received both verbal and written communications describing the events that took place regarding the prior period adjustment. The HUD OIG received working trial balances for FY 2009 to illustrate the specific imbalance and journal entries made. The entries made were clearly explained in the notes to the financials for the FY 2009 audit as well as within the audit finding for internal controls. Specifically, the HUD OIG was provided with Note 19 for an explanation as to why the adjustment as well as Page 53 of the FY 2009 Audit Report – Finding 1, Internal Controls over Financial Reporting.

As of the June 30, 2009 reporting date, the Authority was working on reconciling multiple accounts and resolving several outstanding issues and the balance in question was unsupported as deemed by the Authority and the external auditors. Under Generally Accepted Accounting Principles (GAAP), the Authority was required to remove the balance from their financial statements for reporting purposes. The Executive Director's statement regarding his level of comfort was not specific to the adjustment itself but rather the circumstances and overall structure of the Authority's financial controls at that time which were well documented in prior years' audit findings. The adjustment itself was discussed in executive staff meetings dealing with the findings and the audit report itself. The Authority complied with GAAP, avoided a disclaimer opinion and continued to review and reconcile the balance in question. The Authority posted correcting journal entries in FY 2011.

The Authority improved the general ledger, reviewed and improved the accounting software capabilities, enacted a self-balancing inter-fund system, reconciled all prior inter-fund balances in order to not over or under-pay other respective funds for the balances owed to and from the Revolving Fund. These steps resulted in a materially correct reconciliation of the Authority's inter-fund balances as well as improved Finance staff's understanding of the Revolving Fund, inter-fund and how the general ledger interacts with the respective programs.

Comment 5

Comment 6

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Ref to OIG Evaluation

Auditee Comments

Comment 7

Per the following comment:

HUD requires that any funds deposited into a revolving fund be traceable to their original source program. HUD also requires that payments made from a revolving fund for the expenses of a program may not exceed the funds deposited into the revolving fund for that same program. F03. 21. ACC.pdf G06.a.-8 Section 8 ACC.pdf. For the Housing Choice Voucher Program, program receipts may only be used for program expenditures.

The HUD OIG comment referenced above is not accurate nor does it reflect the intent of HUD regulations in regards to managing cash. While highlighted by the HUD OIG, the ACC agreement is silent how to handle the revolving fund. The ACC agreement does have specific language on how a PHA may utilize pooled funds. This is the method the Authority is using for federal programs and is allowable under the ACC, ACC Section 10 – Pooling of Funds. In addition, PIH Notice 96-33 provides guidelines for cash management regulations and requirements for PHAs and requires each PHA to manage federal funds in a way that is cost effective and maximizes the PHA’s return of the available cash and investments. The utilization of a pooled cash method minimizes costs in accounting for separate bank accounts and minimizes the opportunity for bounced checks, bank fees and other ancillary costs. Per PIH Notice 96-33 and as allowable under ACC Section 10 – Pooling of Funds, the Authority has improved their cash management procedures, successfully minimized costs and improved efficiencies by moving toward the pooling of cash method.

Sincerely,



Robert Fetrow

Ref to OIG Evaluation

Auditee Comments

Hurley, O'Neill & Company, P.C.
Certified Public Accountants

J. Thomas Hurley, C.P.A.

Gene O'Neill, C.P.A.

February 21, 2012

To the Management and the Board of Commissioners
Housing Authority of the City of Stamford d/b/a Charter Oak Communities
22 Clinton Ave
Stamford, CT

Dear Management and the Board of Commissioners:

Management has requested that we review and provide feedback on the "Discussion Draft" audit report (the report) presented by the Regional Inspector General for Audit (OIG), dated February 21, 2012. As the independent public auditor for the Housing Authority of the City of Stamford d/b/a Charter Oak Communities (the Authority) for the years ending June 30, 2008 through 2011, we have substantial knowledge of the Authority's activities and events that transpired during the period that the OIG focused on during their audit. While we do not seek to discredit the OIG's report, we would like to provide management with our observations so that they may better formulate their responses to the findings contained therein.

Upon reviewing the report, we have noted our observations that pertain primarily to an adjustment made by management in 2009 that was cited as part of Finding 1 in the OIG's report. Our understanding of the matter and our observations of the report are outlined in the following paragraphs.

In 2009, the Authority made an adjustment to write-off what was identified as an unsubstantiated debit balance/interprogram imbalance on the balance sheet of the Low Rent Public Housing Program in the amount of approximately \$2.6 million. The need for the adjustment came at a time when the Authority was attempting to rectify significant accounting deficiencies that had developed in a control environment that was not sufficient to minimize the risks of material misstatement, noncompliance, fraud, waste or abuse. Despite significant efforts by management to address these matters and reconcile interprogram balances, the complex nature of the Authority and ill-advised past practices (which included maintaining more than one accounting system to account for the Authority's activities) made it difficult to ascertain the exact identity of the imbalance. As the Authority's auditors, we were aware of the level of effort that management had made in attempting to reconcile the imbalance and did not believe that the write-off was unreasonable.

As management continued to make improvements to accounting controls in 2010 and 2011, it was ultimately revealed by the Authority's accounting consultant that the initial adjustment had been incorrect and a reversal of the entry was approved by management. The accounting

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Ref to OIG Evaluation

Auditee Comments

Comment 8

consultant was able to determine that an internal lack of understanding of the reporting entity resulted in the mistake, which we alerted management to during the planning phase of the 2011 audit (prior financial statements had excluded the net assets of two entities that should have been included as component units of the Authority). The mistake has been rectified in 2011 by not only reversing the original entry but also by incorporating the previously absent balances and activity of on-going development projects that are being undertaken by the Authority through these component units. As a result of the adjustment, the net assets of all programs have been restored as of June 30, 2011. At no time were the assets of federal programs ever misappropriated or compromised as a result of the initial adjustment or the subsequent reversal.

Comment 9

In further reviewing Finding 1, we find that a statement on page 7 of the report states that "the Authority had more than \$7.5 million in unsupported transactions recorded in its interprogram accounts" on its 2011 unaudited financial statements. However, the \$7.5 million represents interprogram payables and receivables that are an accumulation of interprogram transactions. While these balances should not be allowed to accumulate beyond a reasonable amount, they are not necessarily unsupported rather, the centralized checking account that made the underlying disbursements, simply needs to be reimbursed. Additionally, the costs related to these transactions are accounted for on the programs that incurred the expenses, so the accumulation of interprogram balances does not represent an accumulation of unallocated expenses.

Comment 10

Also, on page 9, in reference to the Authority staff not knowing how to properly use the revolving fund account, the report states: "As a result, some programs may have expenses overstated while other programs may have expenses understated. As a result of the Authority's actions, neither HUD nor the authority has a proper understanding of the expenses of the authority's programs." We agree that deficiencies in internal controls have resulted in accumulations of interprogram balances; however, the existence of interfund balances between the Authority's programs and the revolving fund does not have any bearing on the allocation of expenses to the Authority's programs. The use of a revolving fund as a centralized checking account is a common and necessary practice for public housing agencies that benefit from simplified disbursement procedures enabled by such a practice (the acceptability of this practice is addressed in HUD Handbook No. 7460.8 REV 2). However, the revolving fund does not accumulate unallocated expenses; expenses are always accounted for at the program level and it is the responsibility of management to ensure that the programs reimburse the revolving fund so that it has sufficient resources to cover cash outflows that occur in the normal course of business.

These comments summarize our observations of the OIG's report and are intended solely for the use of management in responding to matters identified in that report.

Sincerely,

J Thomas Hurley, CPA
Hurley, O'Neill & Company, P.C.

Comment 11

Finding 1B: Inadequate Support for Salary and Related Costs

The Authority agrees that it did not maintain adequate supporting documentation for salaries and associated costs, including payroll taxes and employee fringe benefits. In the years prior to 2011, the financial records of the Authority were fragmented and often missing supporting documentation. Standardization and internal controls over journal vouchers was lacking. Also, between 2008 - 2011, there was a complete turnover in the Finance Department of the Authority, whereby historical knowledge of the rationale for some accounting transactions was lost as were some key records and documentation, including salary distribution sheets, used to adequately support journal voucher charges across program areas. However, by 2011, full functionality had been restored to the Authority's Finance Department and greater internal controls are in place to document and safeguard the Authority's accounting records.

Under the supervision of the Board and in close coordination with its Finance Committee, the Authority has taken a number of additional steps to support the salary and related costs charged to Federal programs during the audit period:

- Consultant - We have engaged an independent third-party to support the unsupported salary and benefit costs. We have retained the accounting and consulting firm, O'Connor, Davies, Munns and Dobbins, LLP (ODMD), to review our records and propose an acceptable allocation methodology that would be effective yet cost efficient. ODMD is a strong, reputable and well-known firm with over 400 professionals including 60 partners and they serve the tri-state area with a complete range of accounting, auditing and advisory services. ODMD has completed their assessment of our records, systems, and personnel during the audit period. We have attached their assessment and recommendations for a "re-creation" of a cost allocation plan to support the salary and related costs charged to the federal programs during the audit period. To summarize, ODMD is recommending a two part approach to this project. First, in lieu of detailed time records which are clearly not available for the time period in question, a blended allocation methodology would be developed. It would include the number of units, age of buildings, resident profile of the properties and other factors. Using this blended methodology, costs would be allocated across all properties and compared against the original allocation of charges. The second part of the approach will be to have a "reality-check" of those allocations against a current time tracking system for maintenance staff consisting of a reconciled work order time management system. This "reality-check" of current activity against the allocation methodology would provide all parties with the assurance that the costs charged during the audit period are as accurate as possible given the circumstances. We also expect that the HUD field office will have some other ideas and approaches that we may incorporate into the methodology to ensure the most accurate and supportable costs.
- Technology - The Authority has fully implemented a work order system for time tracking of maintenance activities and personnel costs. Policies and procedures

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(attached) have been developed and employees and supervisors have been trained in its proper use and reconciliation requirements. The direct costs of salaries and benefits for maintenance staff will be tracked and charged to individual properties based on a fully functioning and reconciled work order time management system that is integrated into the Authority's Management Information System.

- Policies and Processes - A shared services agreement between Rippowam Corporation and the Authority was approved in January 2012 (attached), with an effective date of July 1, 2011. Invoices and payments have been exchanged retroactive to that date. Costs are being tracked and charged for services performed by the staffs of both entities.

The Authority has also taken these further steps to strengthen internal controls over cost allocation and record-keeping:

- Technology - On July 1, 2011, the Authority began creating electronic records of financial management documents. All accounting transactions and supporting documentation for journal vouchers and payments are scanned and maintained using an off-site hosted server model to ensure proper record retention. Documents are easily retrievable for research and may be printed, e-mailed or saved in various formats depending upon the needs of the user.
- Policies and Processes - Effective July 1, 2011, a Journal Voucher Approval Policy (attached) was implemented at the Authority. The policy addresses required supporting documentation and journal voucher approval requirements to enhance internal controls.

Attachments:

- *ODMD Assessment and Exhibit A*
- *Work Order Policy*
- *Allocation and Services Agreement*
- *Journal Voucher Approval Policy*



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

February 17, 2012

Mr. Vincent J. Tufo
Chief Executive Officer
Charter Oaks Communities
22 Clinton Avenue
Stamford, CT 06901

Dear Mr. Tufo:

In accordance with your request we are pleased to submit our assessment of the ability of the Charter Oaks Communities (COC) to develop an allocation methodology for the fiscal years 2008 through 2010.

In order to familiarize ourselves with the past practices at COC, and to become aware of documentation that may be available to support a cost allocation methodology, we interviewed the following employees:

██████████, Controller
██████████, Chief Operating Officer
██████████, Director of Facilities & Building Systems
██████████, Compliance Officer
██████████, Manager Hurley, O'Neill & Company P.C.
Bob Fetrow, Principal, HSF Consulting LLC
██████████, former Director of Buildings & Grounds
██████████, Foreman
██████████, Foreman
██████████, Admissions
██████████, Help Desk Support
██████████, IT Manager

Additionally, we reviewed reports developed from your HAB, Inc. management information system related to the following functions to determine if they could be utilized to support a cost allocation methodology:

Maintenance Staff Work Orders
Admissions
Inspections

We also considered the Cost Allocation Plan developed by ██████████; Cost Allocations developed by Bob Fetrow; and, to provide a point of reference, the Salary Allocation Plan for 2011. We did not pursue reports utilizing ADP time reports based on staff "swiping in" as we believed it would be staff intensive and, accordingly, would not provide a favorable cost/benefit.

500 Mamaroneck Avenue, Harrison, NY 10528 Tel: 914-381-8900 Fax: 914-381-8910
www.ODMD.com

Conclusion on Supporting Documentation for Time Allocation

HUD timekeeping requirements are quite specific and require that employees who are charged to multiple federal programs need to have signed and dated personnel activity reports (time sheets) or equivalent documentation supporting the total time the employee worked. These reports must be prepared at least monthly and completed after the fact. For employees who work solely on a single federal award or cost center, periodic certifications are required which need to be signed by the employee or their supervisor, who has firsthand knowledge of the work performed, attesting that they have, indeed, worked on the single project for the time period covered by the certification. We have attached our Exhibit A, which is an excerpt from OMB Circular A-87, Section 8h, related to time distribution.

We were advised that although COC is utilizing a supervised work order system to track maintenance staff time and charges, this system was not in place during fiscal years 2008 through 2010.

In an effort to find "equivalent documentation" for this period, we reviewed the reports listed above. We could find no basis, however, by which we could allocate salary costs with the documentation made available to us. In most instances we found some amount of staff time being captured but that amount did not account for a full day of work for the staff person.

Accordingly, we are unable to prepare a salary allocation based upon documentation which would be acceptable to HUD, prior to investing time in this process.

Alternate Allocation Method Based on Number of Housing Units

We believe we will be able to develop a reasonable and rational method to allocate salary costs over the period 2008 to 2010 utilizing a pro rata approach based on available housing unit counts. As we have discussed, we wish to review this methodology with HUD to determine if this approach is acceptable to them prior to investing time to this process.

We propose to begin with salary costs reported in your annual ADP payroll reports for the years in question, sort those salaries by your department codes. The salary data will then be sorted further into:

Direct charges: Scofield, Section 8, Fairfield Court, and Congregate

Allocation based on housing units maintained by COC staff: Building and Grounds, Maintenance East and West, Admissions, and Rental Management

Allocation based on all housing units managed: Executive and Finance departments

Further, given that COC has implemented a work order time keeping system in the current fiscal period, we propose to compare the results of the allocation described above for the building, grounds and maintenance staff to the current system to verify the accuracy of the our allocation methods.

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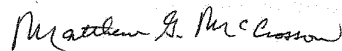
Auditee Comments

We will need to perform further work on the personnel reported within your departments to assure ourselves that the allocation method we proposed is appropriate for that individual.

We look forward to discussing this report with you.

Very truly yours,

O'Connor Davies Munns & Dobbins, LLP



Matthew G. McCrosson
Partner

CC: [REDACTED] Controller COC
[REDACTED] O'Connor Davies Munns & Dobbins, LLP
[REDACTED] O'Connor Davies Munns & Dobbins, LLP

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Finding 1C: Inadequate Documentation to Support Compliance with Procurement Requirements and Policies

The Authority agrees that it did not maintain adequate documentation to demonstrate that it properly awarded and administered contracts and purchase orders in accordance with Federal requirements and its own procurement policy. These infractions primarily occurred during the early years of the Audit Period – 2008 and 2009 - with steady improvement occurring in the later period – 2010 and 2011. During the Authority’s self-assessment year of 2009 as described in our cover letter, the Board and the Executive Director determined that the extant (circa 1992) procurement policy was out of date and was being poorly implemented. The existing staff that was engaged in procurement, primarily in the Finance and Building and Grounds departments, was deemed incapable of attaining compliance with the Authority’s policy and Federal regulations. Absence of an integrated chart of accounts prevented accurate tracking of encumbrances and aggregate expenditures. There was neither a single point of management responsibility nor a centralized repository for essential records. Procurement practices were inconsistent throughout the organization with approaches varying by department. For instance, the OIG report notes that “Capital Fund procurements reviewed were adequate” yet service contracts procured through the Buildings and Grounds department were not. Once the Authority re-staffed the Finance Department, implemented proper financial controls, and replaced the Director of Buildings and Grounds in 2010, we proceeded to re-bid all of the contractual services that were based upon lapsed contracts. Key staff was sent for outside training, and we created a centralized records repository. The Authority has taken these further steps to ensure procurement compliance:

- Management – A position description for a Procurement Manager has been created and posted as of December 30, 2011 (attached). The Procurement Manager will have responsibility for overseeing the entire process, from intent to purchase through the awarding of all contracts, maintenance of a contract register (attached) and Board authorizations. The Authority has been interviewing candidates for this position and hopes to have an employee on board by May 1st. The Procurement Manager will work closely with both the full Board and with its Operations Committee to ensure that the Board is fully aware of all applicable procurement policies and regulations, and with the details of all significant procurements.
- Consultant – The Authority has retained an outside consultant (“Consultant”), Mr. [REDACTED] of Housing Authority Procurement Assistance, to assist in the design and transformation of its procurement model. The Consultant has provided templates and direction in addressing procurement deficiencies and will offer continued oversight and technical assistance to the Board and staff.
- Policies and Processes – The Authority issued a new procurement policy on June 22, 2011 (attached) which revised the previous policy dated October 21, 1992. New policies are being created to allow for the standardization of procurement practices. Those processes are being enabled and enhanced through the utilization of the below mentioned Technology and Documentation changes.

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- Documentation – A master checklist for all procurement documentation has been created. This checklist will be made a part of each procurement file. In addition, a contract register will be maintained on an ongoing basis and a monthly update will be provided to the Board regarding procurement activity. This monthly update will assist the Board in monitoring and overseeing the procurement process and in ensuring compliance with applicable regulations.
- Training – On January 18th the Authority's Consultant provided procurement training to 15 staff and executive personnel. The training included discussion of compliance requirements, best practices and Authority policies. It is the intent of the Authority to provide additional training to staff and executive personnel; a Board training session will be held by June 30th.
- Technology – The Authority has partnered with an affiliate of NAHRO's, Transpire Inc., to implement an electronic procurement ("eProcurement") system. This eProcurement system forces consistency in approach as it allows for the following: centralization of documents, generation of requisitions, solicitation and receipt of bids and proposals, awarding of contracts, tracking usage, and engaging in cooperative procurement activities. Recently, two RFPs were posted on this site and in the future, all applicable procurements will be made via this automated tool. Also, the Authority's management information system, HAB, features a purchase order module which will be implemented by June 1st.
- 18 Month Work Plan – The Authority has created an 18 Month Plan ("Plan") which provides for the review of all current procured contracts and services (attached). This Plan will act as a roadmap for the Authority. Based on the recent purchasing file audit it was apparent that a holistic approach to reviewing all current vendors needed to be developed in order to address the programs' shortcomings. As a result, a master list of the Authority's vendors and their respective anticipated accounts payable was compiled in order to develop a cohesive review plan. The vendors were organized into one of six service categories (Insurance, Maintenance Repair Operations Services, MRO Supplies, Noncompetitive Justification, Professional Services and Trade Services). The vendors anticipated annual accounts payable were then estimated and further broken down into one of two categories: Small Purchase (under \$100k) or Large Purchase (over \$100k). Once that was determined, a pricing methodology was assigned to each vendor. That methodology allowed the categorization of each vendor into one of six classes: Invitation for Bids, Noncompetitive Justification, Piggyback Justification, Quotation for Small Purchases, Request for Proposals and Request for Qualifications. Utilizing all of the above information allows the Authority to manage this process via an 18 Month Work Plan ("Plan"). As is evidenced by the chart there are 22 vendors that fall into the Large Purchase category and 54 that are in the Small Purchase category. The Plan is to complete the Large Purchase reviews by the end of 2012. During the following 9 months it is the Authority's goal to complete the Small Purchases reviews. As we move forward the Plan will serve as a roadmap for procurement planning purposes.

Through the implementation of all of the above items adequate documentation will support compliance with procurement requirements and Policies.

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Attachments:

- *Procurement Manager position description*
- *Contract Register*
- *Procurement Policy*
- *18-Month Compliance Work Plan*
- *Sample Cost Price Analysis (Pertains to **Recommendation 1]**)*

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Finding 1D: Ineligible and Unsupported Costs

The Authority agrees that it had \$49,095 in ineligible costs as stated in the finding. However, the Authority does not agree that the \$46,483 in unsupported costs are ineligible costs. In the years prior to 2011, the financial records of the Authority were fragmented and some payment records (including the standard support that would have been attached) were missing. The Authority made significant efforts to recreate and/or gather supporting documentation for those payments. In some instances the Authority was able to contact vendors and get copies of invoices to prove eligibility. Unfortunately though, in some cases despite our best efforts, vendors were either unable or unwilling to comply given the audit period and their own document retention policies. In addition, most of the unsupported payments were from vendors and service providers that the Authority had engaged over the years. The auditors reviewed and accepted other payments to those vendors, at generally the same cost per unit, as eligible. We are, therefore, requesting that these payments be deemed as eligible given they are from on-going vendors that have provided reasonable and necessary services in the past. If necessary, we will take further steps to evidence cost-reasonableness and the appropriate application of these expenditures.

The Authority has also taken important steps to strengthen internal controls over payments and to safeguard the Authority's records:

- Technology - On July 1, 2011, the Authority began creating electronic records of financial management documents. All accounting transactions and supporting documentation for journal vouchers and payments are scanned and maintained using an off-site hosted server model to ensure proper record retention. Documents are easily retrievable for research and may be printed, e-mailed or saved in various formats depending upon the needs of the user.
- Policies and Processes - Effective July 1, 2011, an updated accounts payable policy was implemented that strengthened internal controls including dual approval on payment requests, clarified appropriate supporting documentation of the payments and standard procedures for the creation of new vendors (attached).

Attachment:

- *Accounts Payable Procedures and Standard Forms*

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Finding 1E: Personnel Policies Not Followed

The Authority acknowledges that it had difficulty complying fully with its personnel policies during the audit period. This was due in major part to the need, emerging in late 2008, to begin addressing the many operational and compliance problems being identified, and to staff the Authority as quickly as possible with highly experienced, credible professionals to take on the "repair" work. It was absolutely clear to the Board of Commissioners that existing senior management at that time were incapable of carrying out this work but that their removal and replacement threatened a vacuum that could exacerbate an already difficult situation. Time was of the essence, and the extant personnel policies did not provide the deliberate, expedited hiring process the Board had concluded was necessary. The installation of new agency leadership, beginning in 2009, was necessary to field a proven team with complementary experience. The Board's decision to engage its new Executive Director and Chief Operating Officer was based upon its careful consideration of those qualities in view of the critical tasks before them.

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To attract and retain key staff, the Authority is compelled to align its compensation practices with those of the geographic market in which we operate considering both the public and private employment sectors. Normal business practice is to utilize salary benchmarking data sources in order to determine the appropriate level of compensation. The Authority utilized four (4) primary sources to establish competitive salary ranges. Those nationally recognized sources were: Watson Wyatt Worldwide, Salary.com, Towers Watson, and Abt Associates, Inc. (Copies of these data sets will be made available to the HUD Field Office.) The Authority queried these sources, applying a variety of assumptions, so that it could adopt a conservative and fully supportable approach in setting the salaries of its executive staff. The salaries assigned to the positions of Executive Director and Chief Operating Officer were based upon extensive comparable salary data for similar, executive positions at a combination of governmental, for-profit and not-for-profit entities in the Stamford, Connecticut labor market area.

While the Authority concurs that a substantial portion of its personnel records was deemed inadequate in the OIG audit report, it agrees with the report's finding that it has made significant progress in this area since 2010. Beginning in mid-2009, the Authority conducted a thorough Human Resources Audit to determine the state of its personnel documentation. We analyzed each personnel file for current employees and created a deficiency list. Beginning in 2010, we endeavored to obtain, or in some cases re-create, missing or incomplete items. The current files reflect that effort. Beginning in 2010, we established new and/or updated policies and procedures to apply to all new hires. Personnel management staff, including an experienced Human Resources Manager hired in 2010, has been diligent in adhering to those policies as well as conducting extensive training for all supervisory staff. Also, beginning January 1, 2011, all exempt and excluded employees became subject to interim evaluations conducted by their supervisor, along with a self-assessment, that becomes part of their personal record.

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Finding 1E: Travel Policies Not Followed

The Authority agrees that it did not consistently apply the travel policy during the audit period. The travel policy in effect during that time was lacking in some basic aspects and it was not written clearly. Staff was not trained on its consistent application. A completely new travel policy was prepared and became effective on July 1, 2011 (attached). The new policy, which is applicable to all employees, strengthens internal controls by requiring pre-approval of travel plans and estimates of anticipated employee travel expenses. It also requires multiple approval levels for all employees. Further, it outlines limits on expenses, defines personal expenses not allowable under the policy and outlines documentation requirements. It references the GSA website for locality per diem and hotel rates and references rates for first and last travel days. In addition to the revised travel policy, the accounting review process has been strengthened to ensure adherence to the policy. For example, all out of town travel reimbursements require review and approval by the Controller. As part of that review, credit card statements are reviewed to ensure that travel expenses are paid only once. The OIG auditors performed a review of more recent travel expenditures and we believe they witnessed significant improvement in this area.

Attachment:

- *Travel Policy and standard travel forms*

RECOMMENDATIONS

Recommendation 1A: Inform the Deputy Assistant Secretary for Public and Indian Housing for Field Operations of the Authority's potential substantial default with section 17 of the Annual Contributions Contract.

In section 1A of the "Recommendations" section of the discussion draft OIG recommends that the Program Center Coordinator of HUD's Hartford Office of Public Housing "Inform the Deputy Assistant Secretary for Public and Indian Housing for Field Operations of the Authority's potential substantial default with (sic) section 17 of the Annual Contributions Contract." The Authority has several comments concerning this Recommendation.

Section 17 of the ACC defines "substantial default" as a "serious and material violation" of any of the covenants of the ACC. The section provides, as examples of what could constitute a substantial default, six specific violations of ACC provisions:

1. Failure to maintain and operate projects under the ACC in a decent, safe and sanitary manner;
2. Disposition or encumbrance of any project or portion thereof without HUD approval;
3. Failure of the HA to comply with any civil rights requirements applicable to the HA or its projects;
4. Abandonment of any project by the HA or if the powers or abilities of the HA are curtailed or limited to the extent the HA cannot accomplish the objectives of the ACC;
5. Failure of the HA to carry out modernization or development in a timely, efficient and Effective manner; and
6. Termination of tax exemption of a project covered under the ACC.

None of these events or occurrences is cited in the OIG draft audit report. While Section 17 of the ACC notes that these examples are not exclusive, and that events of "substantial default" shall not be limited to them, these examples are instructive, both as to the Agency's concerns and goals and in how those concerns and goals relate to the remedial provisions contained in Section 17 (E).

As to the Agency concerns and goals expressed in Section 17, the six examples of "substantial default" each address extremely serious acts or omissions by a housing authority that would threaten the very existence, viability and/or lawfulness of the operation of the Authority's projects. Each of these examples is cast in language suggesting acts or occurrences that are either ongoing, and thus represent a continuing threat to the operation or integrity of an Authority, or are of such a serious, terminal nature that they cannot be reversed or undone. While the Authority does not question the seriousness of some of the management problems it has experienced over the past several years, or the need to correct them, none of those problems rises to the level of existential threat, either ongoing or terminal, suggested in the examples of Section 17, nor are any of them

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continuing or unresolved. The Authority has, since 2008, been doing the hard work of identifying, analyzing and correcting its problems. HUD may, indeed, go beyond the six specific "substantial default" situations contained in Section 17 (B), but the gravity and/or terminal, irreparable nature of the underlying conduct, behavior or management problems should rise to a level equal to that of the examples for the Agency to reasonably invoke the extraordinary powers contained in the balance of this section.

The enumerated remedies available to HUD in the event of "substantial default" are also instructive. Under Section 17 (D) of the ACC, HUD is to determine if, to achieve the purposes of the National Housing Act, the Authority must either convey title of its project(s) to HUD or deliver possession and control of the project(s) to HUD. The Executive Director of the Authority specifically inquired during the exit interview with OIG whether its personnel were suggesting or contemplating that a remedy such as those contained in Section 17(E) be invoked by the Department in this case. The OIG representatives stated unequivocally that they were not, and that neither stripping the Authority of legal title to its properties nor a seizure of operational control was contemplated by OIG in developing its recommendations. And, although Section 17 (E) of the ACC gives HUD the authority to exercise other "right or remedy" under law or equity in the event of a finding of "substantial default", the language of this section suggests that this additional authority is intended to ensure that HUD may seek judicial enforcement of the enumerated remedial powers of Section 17 (D) if necessary to effect them. Again, just as the examples of "substantial default" are of serious, existential and and/or irreparable behavior or conduct, the remedies afforded HUD in Section 17 (E) are of similar seriousness and gravity. Those extraordinary remedies are neither appropriate to the findings contained in the draft report, nor were they apparently contemplated by OIG when the draft report was prepared.

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Finally, and in light of the very high standards of seriousness required for a determination of "substantial default", and the extraordinary invasiveness of the remedies provided HUD in that event, the OIG's observations themselves do not contain the level of gravitas described in Section 17. For example, the draft report states in Recommendation 1A that an item, or items, in its report—without any specific citation or support—might constitute "potential substantial default" under Section 17. This section of the ACC does not speak to "potential"; it speaks to specific, enumerated or otherwise serious situations that threaten the very existence, viability or lawful operation of an Authority.

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Similarly, in the "What We Found" section of the draft report on page 2, it is stated that "the Authority may be in material noncompliance with its annual contributions contract." It is unclear what is meant by this statement, since no section or provision of the ACC is cited, and because the language does not track Section 17, which speaks to "default", not "noncompliance". The only other finding in the draft report that even might relate to a "substantial default" is also expressed in terms of "material noncompliance" with the ACC, not the "substantial default" or "serious and material violation" of the ACC as expressed in that document itself. Neither the findings, or the characterization of those findings by OIG, rise to the very high level of seriousness contemplated by, and expressed in, the definitions and remedies provisions of Section 17 of the ACC.

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Recommendation 1A of the draft report is not supported by the findings of this audit. The findings of the draft report are not of the type referenced in Section 17 of the ACC. Equally as important, the remedies described in Section 17(E) are not appropriate to the draft report findings, while the corrective measures either taken previously, currently being implemented, or proposed by the Authority, will achieve the goal shared by all parties: to address the findings identified in the draft report. The Authority believes that Recommendation 1A should not be included in the final draft. If it is, it should be disregarded by the Deputy Assistant Secretary for Public and Indian Housing for Field Operations.

Recommendation 1B: Provide technical assistance to the Authority to establish an effective procurement system.

The Authority welcomes HUD's technical assistance in establishing an effective procurement system. The Authority believes that its actions to date including the hiring of a Procurement Manager, retaining a procurement assistance consultant, implementing policies and processes, creating documentation protocol, providing training, implementing/utilizing technology, and implementing an 18 Month Work Plan should set the organization on the right path in establishing an effective procurement system.

Recommendation 1C: Prohibit the Authority from using the revolving fund account

The Authority disagrees with this recommendation. The Revolving Fund account is a central pay account, whereby payments to vendors can be processed and managed efficiently and effectively. The use of a revolving fund as a centralized checking account is a common and necessary practice for public housing agencies that benefit from simplified disbursement procedures enabled by such a practice (the acceptability of this practice is addressed in HUD Handbook No. 7460.8 REV2). The ACC Section 10 - Pooling of Funds - describes the pooling of funds as allowable. In addition, PIH Notice 96-33 provides guidelines for cash management regulations and requirements for PHAs and requires each PHA to manage federal funds in a way that is cost effective and maximizes the PHA's return on available funds and investments. However, although we disagree with this recommendation, the Authority does agree with your Recommendation 1D which addresses the need to settle amounts due to and from the revolving fund on a timely basis. We agree that deficiencies in internal controls have resulted in accumulations of interprogram balances. Accordingly, over the next 120 days, we intend to settle all the due to and due from accounts. Once these accounts are settled, we are confident we can maintain a revolving fund account that meets the requirements of HUD and our other stakeholders. We sincerely believe that costs for all properties/programs (federal, state, component units) will rise and process efficiencies will be lost if we are prohibited from utilizing the revolving fund account. We therefore propose to continue the use of the revolving fund account and interfund account with the caveat that revised policies and

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procedures around their use be implemented. We also propose to provide monthly reporting to HUD during the settling up period (next 120 days) and during implementation.

Recommendation 1D: Reconcile and settle any amounts owed from the \$7,505,433 in transactions recorded in its inter program accounts as of fiscal year end, June 30, 2011.

The Authority agrees with this recommendation, and the settling of accounts is well underway. In fact, as of 3/1/12 the interfund balance is at \$1,478,950, a reduction of \$6,026,483 from June 30, 2011. We have formulated plans and are taking action to resolve the remaining balance and are confident we can settle the remaining balance within 120 days. The Authority proposes to provide HUD with monthly reporting showing the progress we are making on settling the accounts.

Recommendation 1E: Obtain an independent third party to determine the source and application of the funds that were part of the prior year adjustment and subsequent reversal.

The Authority respectfully disagrees with this recommendation. The 2009 prior period adjustment was made to write-off what was identified as an unsubstantiated interprogram imbalance that was determined to be a liability of the low income public housing program. The Authority's long-standing practice of maintaining more than one accounting system caused the imbalance in that pre-development activities that should have been recorded on the accounting system were not. Accordingly, in its fiscal years 2010 and 2011, the Authority proceeded to integrate the two accounting systems into one. In doing so, the complete financial "picture" of the Authority and its development activities was revealed and the imbalance became apparent, which led to the reversal of the 2009 prior period adjustment in 2011. At no time did federal funds leave the Authority as evidenced by the reversal. Given that, we do not agree with the need to engage an independent third party.

Recommendation 1F: Provide monthly accounting reports to HUD by the 15th of the succeeding month that addresses all HUD-funded programs, showing each program's assets and liabilities.

The Authority will comply with this request; however, we would request that reports be due to HUD by the 30th of the succeeding month to allow for complete analyses and review. In addition to the financial reports noted, we would be able to supply a narrative to assist in your review and analyses. Further, as noted in our response to ID, we will submit an interfund review as we work through the settlement process. The 30th of the month is more manageable for us as we issue reports to the Finance Committee near the end of the month, and consider Board and Committee review as an integral component of the

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financial oversight process. Therefore, efforts could be combined while meeting the needs of all parties if we could extend the due date to the 30th of the succeeding month.

Recommendation 1G: Support unsupported salary and related costs charged to Federal programs, determine any additional unsupported salary and benefit costs, and repay any amounts that it cannot support with non-Federal funds.

The Authority will comply with this request. We have engaged an independent third-party to support the unsupported salary and benefit costs. The accounting and consulting firm, O'Connor, Davies, Munns and Dobbins, LLP (ODMD) will review our records and propose an acceptable allocation methodology that would be effective yet cost efficient. ODMD is a strong, reputable and well-known firm with over 400 professionals including 60 partners, serving the tri-state area with a complete range of accounting, auditing and advisory services. ODMD has completed their assessment of our records, systems, and personnel during the audit period. We have attached their assessment and recommendations for recreation of a cost allocation plan to support the salary and related costs charged to the federal programs during the audit period. To summarize, ODMD is recommending a two part approach to this project. First, in lieu of detailed time records which are clearly not available for the time period in question, a blended allocation methodology would be developed. It would include the number of units, age of buildings, resident profile of the properties and other factors. Using this blended methodology, costs would be allocated across all properties and compared against the original allocation of charges. The second part of the approach will be to have a "reality-check" of those allocations against a current time tracking system for maintenance staff consisting of a reconciled work order time management system. This "reality-check" of current activity against the allocation methodology would provide all parties with the assurance that the costs charged during the audit period are as accurate as possible given the circumstances. We also expect that the HUD field office will have some other ideas and approaches that we may incorporate into the methodology to ensure the most accurate and supportable costs.

Recommendation 1H: Support \$954,484 in salaries that it determines was expensed to Federal programs and repay any unsupported amounts.

The Authority will comply with this request and it will be incorporated into the activities noted in Recommendation 1G. All salaries and related costs to Federal programs will be identified and supported as required.

Recommendation 1I: Develop a shared services agreement with its instrumentality and properly trace and charge costs to the instrumentality for services provided by staff.

A shared services agreement between Rippowam Corporation and the Authority was approved by the Board in January 2012, with an effective date of July 1, 2011. Invoices and

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payments have been exchanged by the parties retroactive to that date. Costs are currently being tracked and charged for services performed by the staffs of both entities.

Recommendation 1J: Support that \$2,506,434 in contract costs charged to Federal programs was reasonable and supported and repay any amounts it cannot support with non-Federal funds

The Authority has reviewed contract costs charged to Federal programs. Despite procurement lapses, the Cost Price Analysis attached to our response to Finding 1C shows that bids received in 2010 were in most cases lower than the 2006 bids for the same services. Therefore, the Authority believes that the contract costs were reasonable based on actual market data. The Cost Price Analysis (see attachment at Finding 1C) is the Authority's initial approach to justify that the contract costs charged to Federal programs were reasonable. Next, the Authority will solicit information and pricing from like-vendors for the remaining contract costs. This will be accomplished by either one of two methods. The Authority will contact firms and request pricing information or an official solicitation will be conducted. In either case, this written information will be compiled into comparative charts, similar to the Cost Price Analysis, to demonstrate that contract costs were reasonable.

Recommendation 1K: Establishes an adequate encumbrance system to ensure that costs do not exceed contract and purchase order terms and prices without proper approval.

The Authority agrees that establishment of an encumbrance system will ensure that costs do not exceed contract and purchase order terms as well as approved prices without proper approval. To that end, the Authority will expand use of its current management information system, HAB, to include implementation of a purchase order module. The implementation of this module will establish an adequate encumbrance system.

Recommendation 1L: Properly trains its management and staff regarding Federal procurement requirements.

The Authority agrees that its management and staff must obtain further training on Federal procurement requirements. On January 18th, 2012, the Authority's procurement assistance consultant provided training to 15 staff and executive personnel. The training included in-depth instruction on compliance requirements, best practices and Authority policies. It is the intent of the Authority to provide additional training to staff and executive personnel on a regular basis, but no less than two times per year, for the foreseeable future. The consultant will hold a training session for Board members by June 30th.

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1M: Repay with non-Federal funds \$49,095 in ineligible costs identified during our review of disbursements that was charged to its Federal programs.

The Authority agrees to repay \$49,095 in ineligible costs with non-Federal funds.

1N: Provide supporting documentation for \$46,483 in unsupported costs identified during our review of disbursements and if adequate support cannot be obtained, repay amounts it cannot support from non-Federal funds.

The Authority will provide documentation supporting \$46,483 in costs identified as unsupported.

1O: Establishes, documents, and follows sufficient internal controls for ensuring that salaries and other expenses are properly charged in accordance with requirements.

The Authority agrees and will comply with this recommendation.

1P: Establishes, documents, and follows sufficient internal controls for the award and administration of its procurements and contracts that are consistent with HUD and Federal procurement regulations requirements and ensure that the Authority obtains approval from the Board for any contracts that exceed the Board approved amount.

The Authority agrees and will comply with this recommendation.

1Q: Establishes, documents, and follows sufficient internal controls for the disbursement of fund requirements including ensuring costs are allowable and supported costs.

The Authority agrees and will comply with this recommendation.

1R: Establishes, documents, and follows sufficient internal controls for hiring and promoting staff, including interim/temporary appointments, maintaining adequate personnel records, and performing interim evaluations requirements.

The Authority agrees and will comply with this recommendation.

1S: Establishes, documents, and follows sufficient internal controls for travel reimbursement procedures including controls to ensure the Authority is paying the correct travel costs, including 1) reviewing travel documents and comparing them to

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credit card statements to ensure it is not paying for the same expense twice, 2) reviewing management's travel advances and reimbursements, 3) requiring the Authority to obtain supporting documentation from management, employees, and consultants for reimbursement requests to ensure they were actually incurred and are allowable, and 4) requiring the Authority to stop reimbursing travel costs to consultants and other individuals who are not employees unless it is stipulated in the consultant's contract or included in the Authority's travel policies.

The Authority agrees and will comply with this recommendation.

Recommendation 1T: Consider taking administrative action against responsible parties including the Authority's Board of Commissioners, executive director, and consultants related to the prior period adjustment.

The OIG draft report recommends that the HUD Departmental Enforcement Center consider taking administrative action against the Authority's Board of Commissioners, its executive director and consultants related to the findings of the Audit. The Authority does not believe that such action is necessary in this case, or that it would be in the government's best interest.

The Authority has acknowledged in this response that it suffered in the past from accounting and financial control problems that led to the actions described in the draft audit report. But we have also explained, and documented, a vigorous and ongoing program of corrective measures and mitigation of those problems. That program has been fully endorsed and adopted by the Authority's Board of Commissioners and has been undertaken by the Executive Director and staff at the Board's direction. The process began in 2009 with an in-depth analysis of compliance, accounting and procurement capacity and policies, which resulted in a complete personnel replacement within the Finance Department. Further steps included the implementation of actions recommended by a fee accountant, with which the Authority's independent auditor concurred, including the prior period adjustment. Many of these corrective actions are on-going, and will be the subject of continued monitoring by HUD and ongoing reporting by the Authority. The individuals responsible for directing and administering the Authority have shown, through their actions, a deliberate and directed effort to address, and correct, the problems identified through their own efforts and by the OIG. Nothing in their conduct, or in the findings contained in the draft audit report, suggest that Board members, the Executive Director or their consultants willfully ignored or continued any practice or policy now the subject of broad corrective actions, once they became aware of the problem. Rather, their combined efforts to undertake major corrective action are evidence of an unequivocal, affirmative program of correction and mitigation.

The Executive Director and key consultants to the Authority have a big job ahead of them implementing the corrective path now in process for over three years. The effort will be significant as the Authority moves ahead at both the policy and executive levels to address the "repair" tasks identified in this response and the on-going procedural corrections,

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including timely and comprehensive reporting to HUD. It is in the government's best interest that these tasks are carried out vigorously and with the full attention and capacity of the Authority's Board and staff. To take administrative action against these individuals now as they continue the improvements begun in 2009 and prepare to implement additional corrective measures based on the final OIG report and the Authority's response would be punitive rather than effective. Such action would not contribute to achieving the mutual goals and interests of the government and the Authority in seeing these changes brought to full fruition.

The Commissioners and Executive Director are firmly committed to seeing these changes implemented, and they can only be effective in doing so if they are able to focus their attention and hard work on that job, rather than on defending themselves in further proceedings related to the very same problems they are now correcting. It would be quite different if the parties here had denied the existence of the historical problems, did not take them seriously, or failed or refused to carry out a plan of corrective action. If that were the case, one could argue that it was in the government's interest to take further action against these individuals. In the present situation, in which the principals had begun identifying and taking steps to correct the Authority's deficiencies before OIG arrived for the audit, continued doing so even as the audit was underway, and have now fully embraced the very specific conditions, changes, reporting and implementation strategies outlined in this response, the government's best interest will be better served by providing these individuals the support and attention they will need to be successful in this effort, than by a process or procedure that seeks to punish them or make structural changes in their roles just as they are most needed on the job.

The Authority respectfully requests that OIG's recommendation that HUD's Departmental Enforcement Center consider taking administrative action against the members of the Board of Commissioners, the Executive Director and the Authority's consultants be removed from the final audit report as it is both unnecessary and not in the government's best interest in this case.

Respectfully Submitted,
Vincent J. Tufo
Executive Director & CEO
Housing Authority of the City of Stamford
D/B/A Charter Oak Communities

OIG Evaluation of Auditee Comments

Comment 1 We do not agree that the adjustment to write off what was considered an unsupported balance of \$2.6 million and the FY2011 reversal were strictly balance sheet transactions. According to the independent public accountant (IPA), in 2009, the Authority made an adjustment to write-off what was identified as an unsubstantiated debit balance/interprogram imbalance on the balance sheet of the Low Rent Public Housing Program in the amount of approximately \$2.6 million. In its review, the independent auditor, Hurley, O'Neill & Company, stated the balance was unsupported and indicated a need to qualify or disclaim its opinion if the balance remained as stated.

In fact, according to the letter from the IPA included in the Authority's response, "the (need for the) adjustment came at a time when the Authority was attempting to rectify significant accounting deficiencies that had developed in a control environment that was not sufficient to minimize the risks of material misstatement, noncompliance, fraud, waste or abuse. Despite significant efforts by management to address these matters and reconcile interprogram balances, the complex nature of the Authority and ill-advised past practices made it difficult to ascertain the exact identity of the [\$2.6 million] imbalance." Additionally, the manner in which this adjustment was presented in its audit report, along with the unqualified opinion may have contributed to less HUD monitoring. HUD relies on IPA's to accurately report on conditions, such as this, that exist within the large inventory of public housing authority's they manage. Also see Comment 2.

Comment 2 In 2009, the Authority reported to HUD through a note to its audited financial statements that it was making a prior period adjustment to correct an error made in a prior year. This note³⁶ to the audited financial statement does not clearly show that the prior period adjustment was a write-off of the amounts that the Authority was unable to reconcile. This note stated "The prior period adjustment in the Public Housing programs of \$(2,650,172) was for adjustments for prior year interfund transactions improperly recorded as accounts receivable or interfund balances and not expenses." Two years later, the Authority reported to OIG that this prior period adjustment was itself an error. The Authority has not provided sufficient, competent, relevant evidence to adequately explain this \$2.6 million adjustment and attributing decisions to a fee accountant is not appropriate as the Authority is responsible for the work of all its contractors including its fee accountant.

Comment 3 The Authority identifies here that it provided, in 2009, \$2.6 million in Public Housing Operating Fund monies to non-federal projects for the development costs of tax credit replacement projects. For two years, these monies were not available to the Public Housing projects and Stamford residents.

³⁶ Note 19 was included in the Authority's audited financial statements for the fiscal year ended June 30, 2009.

- Comment 4** OIG agrees that these amounts need to be settled, however, it does not agree that the \$7.5 million in transactions are supported. As included in the report, the Authority's revolving fund account had not been reconciled on a routine basis. The Authority had a revolving fund account that it used to hold Federal and State program funds and pay the expenses of its various programs. However, it did not ensure that the payment of expenses from the revolving fund did not exceed the funds on deposit in the revolving fund from each source program as required. Further, the Authority acknowledged that component units have owed the revolving fund for expenses of for two to three years, which would constitute a loan to these programs, which is a violation of HUD regulations, Federal Appropriations Law, and its ACCs. These loans have been on the books for years to the detriment of the Federal programs. HUD entrusted the Authority with Federal funds to be used for specific programs.
- Comment 5** See comment 1 and 2.
- Comment 6** OIG disagrees with this statement that the executive director's level of comfort was not related to the prior period adjustment. In response to OIG's request for additional information regarding this prior period adjustment and reversal, the executive director responded via email, "*I felt uncomfortable with the prior period adjustment and requested that it be reversed pending further internal review (emphasis added) of the interfund activity.*"
- Comment 7** Proper utilization of a pooled cash method, such as a revolving fund, can minimize costs; however, this Authority has not used its revolving fund properly. This Authority loaned Federal money to cover expenses of non Federal projects and affiliated entities. A notice on cash management efficiencies does not supersede Appropriations Law, which assigns Federal funds to specific Federal programs.
- Comment 8** OIG disagrees that the assets of federal programs were not compromised. The prior period adjustment reduced the Public Housing Operating Fund program reserves for a two year period.
- Comment 9** See comment 4.
- Comment 10** OIG disagrees that expenses were always accounted for at the program level. In fact, the IPA's own finding in its 2009 audit report states that certain expenses were incorrectly charged to inter-company accounts for several of the Authority's programs and that the lack of control procedures over financial reporting and compliance could cause the financial statements to be materially misstated and Federal or State dollars to be used for non allowable costs. We adjusted the report background as necessary. Furthermore, the Authority's response stated that it made the prior period adjustment based on the fee accountant's assessment that all non-Public Housing Operating Fund programs were "materially" accounted for, and that appropriate source for the receivable was the Public Housing Operating

Fund program. The Authority then stated that it reversed the prior period adjustment based on further reconciliation that showed that development costs were not properly accounted for and were misclassified in fiscal year 2009 as the obligation of the Public Housing Operating Fund program.

Comment 11 HUD will have to determine whether this "blended methodology" meets Federal requirements including that its plan defines a basis for allocating costs,³⁷ provides consistent treatment between Federal and non-Federal Programs and provides consistent treatment among Federal programs from different Departments or Agencies.

Comment 12 OIG identified significant deficiencies for the entire audit period and revised the report as necessary to include additional examples. We reviewed procurements under the new and former administration and found the same type of deficiencies.

Comment 13 We acknowledge the Authority's efforts to support the \$46,000 in unsupported costs, however, the Authority is responsible for maintaining adequate records to support uses of Federal funds. As recommended, the Authority needs to provide supporting documentation for \$46,483 in unsupported costs identified during our review of disbursements and if adequate support cannot be obtained, repay from non-Federal funds.

Comment 14 Given the facts as detailed in the Finding, and with all due respect to the current executive director, we respectively disagree that the board's actions and failure to follow federal regulations and its personnel policies in the three appointments should be minimized and attributed to a difficult timing issue. As reported, the process followed to appoint the current director started in January 2009 when the board appointed a long-time Authority consultant as its interim executive director effective January 9, 2009, continued in March 2009 when the board entered into an agreement with the instrumentality for acting executive director services, effective March 26, 2009, instead of performing a search for an executive director. Also, although there was an employment agreement in place between the instrumentality and the consultant, he was paid under his expired consultant contract up to July 2009 and did not become an employee of the instrumentality until July 2009. The board authorized a payment of \$18,275 to the director for retirement compensation in accordance with his January 2009 employment agreement.

The board did not post the available position in accordance with its personnel policy. Further, it failed to follow legal advice from its counsel, who recommended that the board amend the Authority's personnel policies before it filled positions on a temporary basis without following its personnel policies.³⁸

³⁷ This basis is the unit of measure used to allocate expenses to a particular program and must be reasonable for all of the entities' programs in accordance with 2 CFR 225 Attachment A Section C.

³⁸ The board sought this advice before renewing its agreement with the instrumentality for executive director services in March 2010.

Lastly, as reported, when the board renewed its agreement with the instrumentality to continue to provide executive services in March 2010, it also revised its scope of services from an acting executive director to an executive director; thereby making the position permanent.

The board's removal of any competition from the hiring process deprived the Authority of a chance to pay wages comparable in the industry, or have the benefit of seeing what skill sets were available in management or finance. Bringing in an independent person with the necessary skill sets to assess and reorganize the Authority may have provided better results. Further, putting the executive director through a competitive process would have put the Authority in a better position to negotiate the terms of his contract (salary, benefits, term of contract). It is not clear to OIG why a responsible Commissioner would not want to obtain a pool of qualified candidates or why it would not want to be better placed to negotiate the terms of the executive director contract. Following a hiring process does not mean you cannot ultimately hire your top pick. This failure to conduct a process, along with the other areas of material noncompliance is a breach of their fiduciary duty to the Authority and the actions should be considered in the recommendation to the Director of the Departmental Enforcement Center.

Comment 15 The Authority did not advertise or compete these positions. The step cited in this section should be taken after they have competed and selected a qualified candidate. Because it didn't follow its hiring process in the first place, there is no assurance that the Authority was paying the best possible price for the most qualified individuals.

Comment 16 As included in footnote 2 of the report, 24 CFR (Code of Federal Regulations) 901.200 provides that HUD may determine that events have occurred or that conditions exist that constitute a substantial default if a public housing authority is determined to be in violation of Federal statutes, or in violation of regulations implementing such statutory requirements, whether or not such violations would constitute a substantial breach or default under provisions of the relevant annual contributions contract. As stated throughout the report and summarized in Appendix C, the Authority was found in violation of multiple regulations. In our opinion due to the nature, seriousness, and extent of the violations, such violations may raise to the level of a substantial default as provided in 24 CFR 901.200. HUD makes the determination of a substantial default and if it determines that there was a substantial default, it can take the appropriate corrective action through an established corrective action plan with specific metrics.

Comment 17 See comment 16.

Comment 18 See comment 16. OIG used "potential" substantial default in recommendation 1A, as this is a determination for HUD.

- Comment 19** OIG revised the wording in the report from "may be in material noncompliance" to "may be in substantial default" to be consistent with the language used in the ACCs. OIG also clarified in the report the basis for its statement that the Authority may be in substantial default of its ACCs.
- Comment 20** See comment 16. HUD will determine whether the Authority was in substantial default with its ACCs and which remedies should apply to the Authority, as a result.
- Comment 21** OIG disagrees with removing this recommendation. The Authority needs to demonstrate to HUD that it can use the revolving fund account properly to ensure that federal funds are only used for federal program expenses and until such time, HUD should prohibit the Authority from using the revolving fund account.
- Comment 22** OIG disagrees that an independent third party is not necessary and as such, did not revise this recommendation. See comment 10. Also, the Authority stated in its response that the write-off was based on the reconciliation of all other accounts and that left the imbalance with the Public Housing Operating Fund program, however, clearly the imbalance did not belong to the Public Housing Operating Fund program, as evidenced by its reversal in fiscal year 2011. The Authority did not provide support during the audit or with its response to show how it had determined the imbalance in 2009 and the reversal belonged to the Public Housing Operating Fund program. The Public Housing Operating Fund program's operating reserves were reduced for a two year period.
- Comment 23** We revised the recommendation to the 30th of the succeeding month.
- Comment 24** See comment 11.
- Comment 25** OIG acknowledges the Authority's initial efforts to support the questioned costs with its Cost Price Analysis. The Authority should continue its efforts and show that \$2,506,434 in contract costs charged to Federal programs are reasonable and supported and repay any amounts it cannot support with non-Federal funds.
- Comment 26** OIG acknowledges the past and current efforts made by the Authority; however we do not agree that the Authority's inability to adequately monitor and oversee Authority operations and ensure that adequate internal control procedures were in place and followed and the resulting areas of material noncompliance identified throughout the report do not warrant further review by the Departmental Enforcement Center to determine whether administrative sanctions should be taken. Based on the nature and extent of the multiple significant areas of noncompliance, the Authority may be in substantial default with its annual contributions contracts and misspent Federal funds and based on the actions of the board, it may have breached its fiduciary responsibility to the Authority.

Appendix C

APPLICABLE CRITERIA AND VIOLATIONS

<p>Section 8 Housing Choice Voucher program annual contributions contract, paragraphs 11(a)(b)(c), 12(a)(b), 13(c)</p> <p>Low-rent and Capital Fund programs annual contributions contract, section 9(A),(B), and (C), section 10(A),(B), and (C)</p> <p>Federal Appropriations Laws as applicable for each fiscal year</p>	<p>The Authority did not fully reconcile its interprogram transactions.</p> <p>The Authority could not support more than \$2.6 million in interfund transactions it wrote-off in fiscal year 2009 as a prior period adjustment or the reversal made in fiscal year 2011.</p> <p>The Authority did not ensure adequate deposits were made by some programs to the revolving fund.</p>
<p>2 CFR (Code of Federal Regulations) 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget (OMB) Circular A-87)</p> <p>HUD Handbook 7420.6, chapter 5, paragraph 24c</p>	<p>The Authority could not support \$6.7 million in salaries and related salary costs.</p> <p>The Authority could not support how \$956,000 in undistributed salaries was expensed to its programs.</p>
<p>24 CFR 85.36, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments-Procurement</p> <p>HUD Handbook 7460.8, REV-2, Procurement Handbook for Public Housing Agencies HUD</p> <p>The Authority's procurement policy, effective 1992</p> <p>The Authority's procurement policy, effective June 2011</p>	<p>The Authority failed to comply with HUD procurement regulations and its own procurement policies.</p> <p>The Authority did not adequately award or administer its contracts and purchase orders in accordance with Federal requirements.</p> <p>The Authority failed to maintain a contract register or procurement files to show the history of the procurement and lacked adequate monitoring and oversight of contracts and payments.</p>
<p>2 CFR 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget (OMB) Circular A-87)</p>	<p>The Authority did not have adequate controls over disbursements.</p>
<p>The Authority's own personnel policies</p> <p>24 CFR 85.36, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments-Procurement</p>	<p>The board and its executive director did not follow the Authority's personnel policies or procurement requirements.</p>
<p>The Authority's travel policy</p>	<p>The Authority did not follow its travel policy.</p>