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Audit Report Number	2009-BO-1010
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TO: Deborah Hernandez, Deputy Assistant Secretary for Office of Field Operations, PQ  
Donna Ayala Director, Office of Public Housing, Boston Hub, Region 1, 1APH

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

SUBJECT: The City of New London Housing Authority Lacks the Capacity to Properly  
Administer its Capital Funds Program and Recovery Act Funds

## **HIGHLIGHTS**

### **What We Audited and Why**

We initiated this audit of the City of New London, Connecticut, Housing Authority (the Authority) as part of OIG's initiative to evaluate public housing authority's capability to administer the capital funds provided under the American Recovery and Reinvestment Act of 2009 (The Recovery Act). The Authority has had significant management deficiencies for more than ten years and HUD identified the Authority as "overall troubled" in May of 2004. Our objectives were to determine whether the Authority (1) properly administered its Capital Fund program, and (2) has the capacity to administer its Recovery Act capital funds in accordance with HUD requirements and the Recovery Act.

### **What We Found**

The Authority did not properly administer its Capital Fund program and lacks adequate capacity to ensure that Recovery Act funding for the Capital Fund program will be administered in accordance with HUD requirements and the Recovery Act. The Authority improperly awarded contracts without the Capital

Funds to cover the costs; and failed to openly compete procurements and establish formal written contracts with required contract provisions to protect the Authority's interests. The Authority also did not ensure that contractors paid workers the minimum wage required by law or always ensure that contractors maintained adequate performance bonds and liability insurance. In addition, the Authority did not complete a cost or price estimates to ensure that prices paid were reasonable.

The Authority also lacked formal accounting procedures and has not had an effective financial or capital fund manager since February of 2008. Its capital funds were not monitored on a regular basis and its accounting records were not accurate or updated timely. In addition, it did not accurately report obligations and expenditures to HUD, and could not support \$91,027 in capital funds used to administer the program.

HUD evaluated the Authority as a medium risk grantee requiring additional controls and oversight for administration of its Recovery Act funds.<sup>1</sup> HUD also concluded that based on the Authority's extended history of poor performance and lack of improvement, the Authority lacked the management capacity to successfully operate its federal public housing programs. Based on our review, we agree with HUD's assessment. HUD also recommended that the Authority procure a contractor to manage its federal housing programs; and, the Authority was in the process of procuring a contract administrator.

## What We Recommend

We are recommending that the Director of HUD's Boston Office of Public Housing (1) fully implement its strategy for troubled public housing authorities and ensure the Authority properly expends and accounts for its Capital Funds received under the Recovery Act; (2) require the Authority's Board of Directors to implement adequate procurement and accounting controls over Capital Funds; and (3) require the Authority to support or repay \$91,027 in unsupported administrative fees. We also are recommending that the Deputy Assistant for Field Operations inform the Assistant Secretary for Public and Indian Housing of the Authority's inability to improve its score or meet the goals of the memorandum of agreement with HUD and determine the statutory remedies required under section 6 (j) of the U.S. Housing Act of 1937

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

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<sup>1</sup> The Authority was allocated \$381,631 in Capital Funds under the Recovery Act.

## **Auditee's Response**

We provided Authority officials with a draft audit report on July 16, 2009, and requested a response by July 27, 2009. We held an exit conference with Authority officials on July 20, 2009, to discuss the draft report, and we received their written comments on July 24, 2009. The Authority generally agreed with the facts, conclusions, and recommendations. Also, HUD agreed with our finding but stated that recommendations 1A and 1D were not necessary because HUD was already implementing corrective actions. However, we did not remove recommendations 1 A and 1D due the Authority's long standing deficiencies and HUD's ineffective efforts to ensure the Authority complied with its requirements.

The complete text of the auditee's and HUD's response, along with our evaluation of these responses, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The City of New London, Connecticut, Housing Authority (the Authority) provides low income public housing for qualified individuals. The Authority has contracted with the Department of Housing and Urban Development (HUD), for financial assistance pursuant to the United States Housing Act of 1937, as amended, and the State of Connecticut, Department of Economic and Community Development (DECD) for financial assistance for elderly housing projects in the form of capital grants and/or loans. The Authority administers approximately 838 housing units (1) 331 federal housing units,<sup>2</sup> and (2) 507 state housing units.

The Authority was allocated more than \$910,000 in Capital Program funds during 2006, 2007 and 2008. HUD provided the capital funds for the Authority's operations, management improvements, administration, fees and costs, dwelling structures, and non-dwelling equipment. In addition, the Authority has been allocated more than \$381,000 in Capital Funds as part of the American Recovery and Reinvestment Act of 2009.

The Authority has had significant management deficiencies for more than ten years and has been operating under a Memorandum of Agreement with HUD's Troubled Agency Recovery Center and Recovery Prevention Corps since 1998. HUD identified the Authority as "overall troubled" in May of 2004.

Our audit objectives were to determine whether the Authority properly administered its Capital Fund Program and has the capacity to ensure that capital funds will be administered, and accounted for in accordance with HUD requirements and the Recovery Act.

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<sup>2</sup> 225 public housing and 106 housing choice voucher program units.

## RESULTS OF AUDIT

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### Finding 1: The Authority Improperly Administered its Capital Funds and Lacks the Capacity to Properly Administer Recovery Act Capital Funds

The Authority did not properly administer its capital fund program or have adequate controls to ensure that Recovery Act Capital Funds will be spent in accordance with HUD requirements and the Act. This condition occurred due to the executive director's improper actions and continued uncorrected due the board of directors' inability to identify and correct longstanding management, financial, and physical deficiencies. Specifically, the Authority did not have adequate procurement controls, lacked an effective Capital Fund or financial manager or formal accounting procedures; and its accounting records and reports sent to HUD were inaccurate. In addition, it did not ensure that Capital fund expenditures were within budgeted and HUD approved amounts; and could not support more than \$91,000 in Capital Funds charged to administer the program.

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#### Authority's Long-Standing Deficiency

The Housing Agency has been designated as overall troubled for the past five years under HUD's public housing assessment system (PHAS). The troubled status resulted primarily from the Authority's failing scores in the financial and physical components of the PHAS. The failed score for the financial component indicates the Authority's inability to effectively manage and administer its housing program funds. It's failed score for the physical component of the PHAS indicates that the general condition of the properties result in units not being safe, sanitary, and decent. The audit also points out that the Authority does not have effective management control or practices. It has had long-standing procurement deficiencies, inadequate and ineffective financial controls, and a lack of oversight of capital fund activities. However, the executive director and board of commissioners have been unable to initiate the actions needed to remedy the Authority's long-standing management, financial and physical deficiencies.

## Long-Standing Procurement Deficiency

HUD reviews of the Authority administration of its Capital Funds program show a long history of procurement deficiencies that required improvement. HUD completed a full procurement review in June of 2004 and limited reviews during the next four years. The reviews identified numerous procurement deficiencies, many of which were also identified during our audit and described in the next several sections. During the four year period HUD required the Authority to improve procurement practices, ensure service contracts were procured properly, conduct cost analysis on all procurement actions, and establish a contracting file system. Reviews conducted during the next three years showed that although the Authority made some improvement the Authority still did not adequately correct procurement deficiencies.

## Procurement Procedures not Followed

The Authority's procurement procedures were not always followed because of ineffective management controls. For example, the Authority failed to follow its own procurement policy and HUD regulations when it incurred costs in excess of the HUD approved Capital Fund budget violating federal regulations.<sup>3</sup> This occurred when the executive director executed two contracts without enough funds to pay for masonry repairs and security systems at Thames River Apartments. The executive director misled contractors when he advertised that the projects were fully funded with HUD Capital Funds. However, the projects were not fully funded and the Authority failed to pay the contractors \$159,590 when work was completed.<sup>4</sup> HUD does not expect 2009 Capital Funds to be available before August of 2009. Therefore, the contractors will continue to be unpaid leaving the masonry contractor unpaid for more than six months.

The contracting officer also awarded a \$22,000 contract for architectural services without advertising, and awarded a \$9,500 construction contract without soliciting at least three bids as required by HUD<sup>5</sup> and the Authority's procurement policy. The executive director circumvented the requirement to solicit at least three bids for the construction contract because he wanted the work completed quickly for the planned opening of the Boys and Girls Club. Neither of these contracts met the requirements for noncompetitive bidding.

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<sup>3</sup> at 24 CFR § 968.225 (a)

<sup>4</sup> \$159,590 = \$132,458 for masonry repairs + \$27,132 due for security systems

<sup>5</sup> 24 CFR 85.36 (c)

The Authority also entered into a security services agreement without adequate cost controls. The agreement was for additional police patrols to address long standing security issues. However, the agreement did not limit the number of patrols to be provided or the total amount the Authority would be obligated to pay. As a result, the number of patrols and costs increased beyond the amount of available funds, the Authority had to suspend the patrols, and the Authority failed to pay \$20,447 for patrols completed in November and December of 2008.

### **Significant Procurement Deficiencies**

The Authority also had numerous other procurement deficiencies because of ineffective management controls. For instance, the executive director did not always execute formal written contracts. Instead, bid proposals were used that did not include the required clauses to protect ensure the Authority's interests. For example the contractors did not always agree to pay workers the minimum wages required by the Davis Bacon Act, maintain adequate liability insurance, or comply with the Contract Work Hours and Safety Standards Act. In addition, an architect worked for more than one year without a written contract.

The executive director failed to incorporate mandatory clauses in construction contracts. The executive director executed a \$319,000 construction contract using a standard construction agreement. The agreement protected some of the Authority's interests; however, it did not include the construction completion date, liquidated damages, prohibition against liens, and anti kickback prohibitions. The Authority also entered into a \$192,830 contract to install security systems. The contract included the required HUD form, 5370. However; the executive director did not complete the form to establish the construction completion date, liquidated damages, or minimum insurance requirements, and the Authority's interests were not adequately protected.

The executive director also failed to ensure that contractors paid workers minimum wages. Federal law and HUD's regulations require that the Authority review certified contractor payrolls and conduct on site interviews to ensure that all laborers and mechanics are paid in accordance with the applicable wage determination. However, the executive director did not conduct certified payroll reviews or on site interviews.

In addition, the executive director failed to

- Obtain payment and performance bonds and proof of insurance,<sup>6</sup> and the Authority was not adequately protected against contractor default or accidents.

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<sup>6</sup> Required by 24 CFR 85.36 (h) <sup>7</sup> Required by 24 CFR 85.36 (f)



- Complete cost estimates for all procurements to show the price paid was reasonable,<sup>7</sup> and without cost estimates the Authority could not show that \$192,830 paid for security systems and more than \$22,000 paid to its architect was reasonable.
- Establish an adequate contract filing system,<sup>8</sup> and although HUD required the Authority to develop an effective contracting file system in June of 2005, the Authority was still in the process of developing its file system at the time of our audit.

See appendix C for a complete list of procurement deficiencies.

### Inadequate Financial Controls

The Authority also had inadequate financial controls. It lacked formal accounting procedures and also did not have an effective financial manager since February of 2008. As a result, the Authority's accounting records did not accurately show the amount of Capital Funds it obligated and expended. For example, HUD's records showed the Authority used \$54,585 in 2006 Capital Funds for police patrols; however, the Authority recorded more than \$113,348 in its records. In addition, although the Authority uses accrual accounting, it recorded accounts payables only after the work was confirmed complete, and invoices were received from the contractor and funds were received from HUD. As a result, the Authority's payables were understated in its records. The Authority recently hired a fee accountant who reviewed Capital Fund transactions and made adjusting entries, and it was awaiting an audit to verify the accuracy of its accounts. However, inaccurate financial data during the past year degraded its and HUD's ability to effectively track and manage Capital Fund transactions.

The Authority also could not support the \$91,027 it charged to administer its Capital Funds.<sup>9</sup> The Authority performed some work preparing its capital plan and administering contracts and agreements. However, it did not have a system to track or record the amount of staff time or costs incurred to administer the program.<sup>10</sup>

<sup>7</sup> Required by 24 CFR 85.36 (f)

<sup>8</sup> Required by (24 CFR 85.36(b)(9)

<sup>9</sup> 1/1/2006 – 12/31/2008

<sup>10</sup> The Authority also paid its Architect \$7,000 to administer a masonry repair contract. The \$7,000 was charged to fees and costs however, the Authority did not reduce the amount of administrative fees it charged to the Capital program.

## **Capital Fund Transactions were not Monitored and Accurately Reported**

The Authority did not monitor its capital fund transactions on a regular basis, and did not accurately report expenditures to HUD.<sup>11</sup> This condition occurred because the Authority did not have effective management controls requiring the monitoring and ensuring accurate reporting of its capital fund activities, and it lacked accounting procedures for its capital funds, and its staff did not have formal training on accounting for Capital Fund.<sup>12</sup> For example in November 2008, the Authority reported that it spent more funds than it received.<sup>13</sup> It also under reported expenditures when reporting that \$141,538 in 2006 capital funds was expended but actually expended \$285,873. The Authority continued the inaccurate reports for nine months until HUD identified and corrected the errors.<sup>14</sup> In addition, the Authority did not maintain documentation to itemize and support the amount of funds obligated on HUD's Line of Credit Control System. This inaccurate and unreliable information degraded HUD's and its ability to track Capital Fund expenditures and ensure they complied with HUD's requirements.

## **Current Developments**

HUD concluded in March 2009 that based on the Authority's extended history of poor performance and lack of improvement, it lacked the management capacity to successfully operate its federal public housing programs. HUD also evaluated the Authority as a medium risk. HUD recommended that the Authority's Board of Commissioners contract out management of its federal housing developments. The Board agreed and is in the process of procuring a contract administrator with HUD's assistance. In addition, the Board requested and the executive director agreed to resign, effective on August 3, 2009.

In April of 2009, HUD published its strategy for troubled public housing agency's use of Recovery Act funds. HUD's strategy for a troubled public housing agency includes: (1) zero threshold on Recovery Act funds, (2) procurement policy review prior to grantees initiating any action, (3) baseline remote and on-site review required by end of 3rd quarter, then minimum of quarterly on-site review, 4) monthly progress updates, and (5) Assignment of a HUD special work assessment team for technical assistance, monitoring and oversight.

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<sup>11</sup> On HUD's Line of Credit Control System, the primary system used to control Capital Fund disbursements.

<sup>12</sup> One employee successfully completed Capital Fund training in March of, 2009. However, he had not been assigned to manage the Capital Fund program as of April 24, 2009.

<sup>13</sup> The Authority received \$265,919 in 2008 CFP funds and reported that it expended \$286,919 in 2008 CFP funds.

<sup>14</sup> August 2008 through April of 2009

## Conclusion

Long-standing deficiencies regarding the Authority's inadequate procurement controls and financial control weaknesses showed that it did not have capacity to properly administer its Capital Fund program. The Authority's weak procurement and accounting controls allowed

- Awarding contracts without funds to cover the costs
- Awarding construction work without competition
- Awarding contract with no maximum cost
- Approving work without formal written contracts
- Contracts without the proper clauses to protect the Authority's interests
- Contracts to be issued without assurance that Contractor's would pay the minimum wage required by law, or without adequate bonding and liability insurance
- Procurements without complete cost estimates to show prices paid were reasonable
  - An inadequate and ineffective contract file system, which has existed for more than four years, and
  - The Authority to expend \$91,027 for its staff to administer its Capital Fund program without adequate support.

The audit and HUD's assessment show that the Authority did not have the capacity or the management controls to administer its Capital Fund program. The audit also showed that it could not ensure that the more than \$381,000 in Capital Funds allocated to it under the American Recovery and Reinvestment Act of 2009 would be spent in accordance with HUD requirements and the Act.

## Recommendations

We recommend that the Deputy Assistant for Field Operations

- 1A. Inform the Assistant Secretary for Public and Indian Housing of the Authority's inability to improve its score or meet the goals of the memorandum of agreement with HUD and determine the statutory remedies required under section 6 (j) of the U.S. Housing Act of 1937.

We also recommend that the Director of HUD's Boston Office of Public Housing

- 1B. Fully implement its strategy for troubled public housing authorities and ensure the Authority expends and accounts for its Capital Formula grant

funds in accordance with HUD requirements and the American Recovery and Reinvestment Act.

- 1C. Require the Authority or its alternative management entity maintain and implement adequate procurement and accounting controls over Capital Funds.
- 1D. Require the Authority to support or repay the Capital Fund \$91,027 for the amount of unsupported Capital Fund Administrative fees.

## SCOPE AND METHODOLOGY

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We conducted our audit between January and July 2009. We completed our fieldwork at the City of New London Housing Authority's offices located at 78 Walden Ave, New London, Connecticut. Our audit covered the period January 1, 2006 through December 31, 2008 and was extended when necessary to meet our audit objectives.

To accomplish our audit objectives, we

- Reviewed relevant HUD regulations, including
  - 24 CFR 85.36 - Administrative Requirements for Grants and Cooperative Agreements -
  - 24 CFR § 968 - Public Housing Modernization
  - HUD Handbook No. 7460.8 REV 2 - Procurement Handbook for Public Housing Agencies -
  - HUD Handbook 13441 Federal Labor Standards Compliance in Housing and Community Development Programs
  - Housing Authority of the City of New London Procurement Policy
- Interviewed the Authority's staff and its contract administrators to determine what controls were in place to ensure compliance with HUD's requirements.
- Reviewed the Authority's procurement files to verify all capital expenditures exceeding \$5,000 were properly procured, adequately supported, properly classified, eligible, and within budgeted amounts.
- Reviewed the Authority's accounting records to verify capital expenditures were properly recorded and reported to HUD

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(s).

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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.

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## Relevant Internal Controls

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

- Controls over procuring contacts
- Controls over accounting and reporting capital fund expenditures

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

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

- Procurement controls did not ensure goods and services were obtained in accordance with the Authority's procurement policy and federal requirements. (see finding 1)
- Accounting procedures did not ensure that capital expenditures were accurately recorded and reported to HUD. (see finding 1)

- Accounting procedures did not ensure administrative costs were tracked and recorded. (see finding 1)

## APPENDIXES

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### Appendix A

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

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Recommendation number	Unsupported <sup>1/</sup>
<hr/> 1C.	<hr/> \$91,027

- <sup>1/</sup> 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

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### Ref to OIG Evaluation

### Auditee Comments

#### Comment 1

Response to Audit Report of New London Housing Authority's Capital Fund performance dated July 22, 2009.

#### Finding 1: Preface.

While the Authority concurs with the statement that we neither properly administered nor adequately controlled the capital funds provided by HUD over the last three years, we do object to the implication that the Board of Commissioners shares equal responsibility with the Executive Director for this poor performance. Commissioners who raised questions in an attempt to provide oversight of the Authority's administration consistent with recommendations included in the Memorandum of Agreement with HUD were assured by the Director that the Agency was either in compliance or in the process of complying. When this inability to obtain accurate answers was shared with both HUD RPC and State CHFA/DECD personnel, many of them indicated that they had experienced the same problem. A commissioner is submitting some of the questions he asked the Director at Board meetings along with some of the Director's responses. As a result, the Board of Commissioners was unable to make appropriate decisions on contracts, proposals, budgets, internal controls, procurements, and on other activities cited for violations.

#### Comment 2

#### Authority's Long-Standing Deficiency

The commissioners are aware that the Authority has been on the troubled list for 10 Years. When a new commissioner is brought on the board, he/she is told about this status by the Director. He/she is further told that the cause of this problem is that the state properties drain the income of the Agency because the state does not allow sufficient rental rates to be assessed and does not provide subsidies. Then he/she learns that the near-term plan to recover from the enormous debt burden is taking advantage of LIHTC funding to rehabilitate the two state moderate rental properties. This project would provide millions of dollars of additional revenue to the Agency.

With regard to the point that the failure of the physical component of the PHAS indicates that "...the general condition of the properties result in units not being safe, sanitary, and decent", we have never heard this from anyone prior to this audit. Additionally, we have seen nothing from HUD about this. The recent REAC safety citations at Thames River, as we were told by the director, involved a suspended fire alarm in a common area, a recently vandalized door in a corridor and a missing electrical cover in an enclosed room out of normal resident contact. The 2008 REAC low score we were told was due to missing a filing deadline which we told was appealed because of the contract firm's error.

We cannot dispute the comments about lack of controls and oversight the Board was told, and naively believed, that there were no problems with the Agency other than inadequate revenue which would soon be remedied by the LIHTC program. We were also

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 3**

constantly reminded of the achievement of 98 per cent occupancy, the increased eviction rate for residents for non-payment of rent, and the dramatic improvement in apartment turn around time.

Long-Standing Procurement Deficiency

The Commissioners certainly agree that the procurement practices of the Agency are totally unsatisfactory now that they have been made aware of what has been going on. Commissioner attempts to inquire about contracts were usually met with charges of "micromanaging". One commissioner who said at a meeting that he was unaware that an architect whom he knew professionally was working on a Thames River capital fund project was told that the architect was working "pro bono".

Procurement Procedures not Followed

This section includes specific cases of procurement violations that the Commissioners find to be totally unacceptable. Committing funds that were not available, misleading contractors, not soliciting three bids, and absence of cost controls we understand fundamentally are bad business practices that only cause harm. We fully appreciate the revelation of what has been going on in our name and only wish that we had been aware of this situation a long time ago. The Board recognizes that proper procurement guidelines are essential to protecting the interests of the Agency and of its residents.

Significant Procurement Deficiencies

As this section presents more dramatic examples of procurement mismanagement, our response is similar to the one provided in the last section. As we now have new management in place, the Agency will immediately begin updating its procurement policy and will ensure that its administration follows it. Further, four members of the Board attended a two-and-a-half hour training session provided by HUD RPC. The program, among other important things, covered financial management, procurement and maintenance and capital funds. Had the Board known this information two years ago, it is likely that most of the problems cited in this report would not have occurred. Not knowing what to look for put the Board in a very weak position to negotiate with a Director with over thirty years of experience in public housing management.

Inadequate Financial Controls

The Board was concerned about the absence of financial controls and formal accounting procedures following the loss of its fee accountant in 2008. The purported cause of the loss of a fee accountant was that it had become cost prohibitive. Names of suitable firms were provided by RPC and were contacted but, as commissioners were told, none responded. A former Executive Director was hired part-time and served for a few months. As he did not wish to put in so much time, he brought in an accountant whom the Board hired as its financial director. After one month the Executive Director praised him abundantly. After the second month, the board was told that he had resigned when

**Comment 4**

confronted about his offensive interpersonal behavior. In a subsequent telephone conversation with a commissioner, the individual insisted that he was fired for having tried to reorganize accounting procedures among other things. As the report notes, the Board has recently hired a new fee accountant who was highly recommended. Regarding the conclusion that the Authority could not support \$91,027 expended to administer the Capital Fund, the current Acting Executive Director has raised an important question. She claims that the 10 per cent was drawn following HUD approval to do so. She further asserts that there was never any enforcement of a regulation governing the documentation of administrative use of capital funds. NLHA was acting in good faith by conforming to precedent. Further, you did not cite a federal regulation governing this activity, and we could not find any that require documenting administrative hours. Apparently these draws took place over the course of three years. Why would HUD inspectors not have brought this to the attention of the staff?

Capital Fund Transactions were not Monitored and Accurately Reported

It appears that the Agency's Capital Fund administrator had little understanding of how to manage the program. The Board was not aware of whom the Agency's administrator was let alone how the program was being managed. Once again, until the many internal problems were brought to the attention of the commissioners recently, nothing in the way of information had been offered.

Current Developments

The Board concurs with the report's assessment of previous poor performance in the areas of financial and procurement management of its Capital Fund. The new management has however already begun working with HUD to correct its reports. HUD has recently accepted revisions and has forwarded funds to pay one contractor.

The Board is also, as noted, issuing an RFP for an asset manager who will in turn be responsible for issuing and guiding it in hiring a suitable property management firm to run the federal properties.

The application of HUD's new strategy governing the use of Recovery Act funds to troubled Housing Authority's such as this one is eminently reasonable.

Conclusions

As we have attempted to demonstrate above, the Board of Commissioners concurs with all of the deficiencies outlined in this section save for the question raised about the logging of hours worked pursuant to the use of 10 per cent of Capital Fund money for administrative costs. On this matter we look forward to your response.

The Board, in addition, wishes to express its desire to avoid taking the blame for its Executive Director's unprofessional conduct, lack of responsibility and generally

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 1**

dismissive attitude toward any accountability to the Board of Commissioners as well as to federal and state regulators. It was after all, not until the meeting of April 8, 2009, that HUD officials revealed the numerous instances of regulatory violations that Board members became aware of the Authority's management problems. Full realization by the Board of the actual depth of the problems did not occur until the presentation of the OIG Capital Fund audit findings and until further information was provided by CHFA and DECD. The Board then swiftly sought and obtained the resignation of the Executive Director and installed new management. Commissioners are now working closely with the new management to address urgent problems, to comply with regulatory directives and to chart a new course for the Authority.

Recommendations

With the exception of item 1C, pending clarification of what HUD regulations were in place at the time of Capital Fund administrative cost draw downs, the Board of Commissioners wishes it to be known by all of its supervisory agencies, that it wishes for nothing more than to fully comply with all federal and state regulations. It further wishes to conform to good business practices to include diligent oversight of management by its Board of Commissioners.

Lastly, we would appreciate the auditors' review of an earlier draft of this audit prepared by Mr. Jeannotte that pointed much more strongly to the actions of the Executive Director as the source of most of NLHA's problems though by no means all of them.

Note - The Auditee's comments included emails documenting the board of commissioners' questions for the executive director in an attempt to provide oversight of the Authority's administration. We considered the emails in our evaluation however, did not include them in the report because they contained personal identifying information.

**Ref to OIG Evaluation**

**HUD Comments**

**Comment 6**

Thank you for the opportunity to comment on the New London HA Report. While we concur with the finding, we have found several major inconsistencies in the assumptions made on how many years the NLHA has actually been troubled and the current status of the ARRA Troubled Risk. I have explained in more detail below:

**Comment 7**

Additionally, as I mentioned in my earlier comments, Recommendation 1.A. and now this addition of 1.D., are not corrective actions and we do not concur with them as they are moot. We are already completing the implementation of the ARRA Troubled Strategy for Medium Risk PHAs; and the DAS for OFO is aware of and we have had discussions with her on NLHA's inability to improve its score and Ms. Hernandez has concurred with our corrective action of contracting out the entire program.

**Comment 6**

**Years Officially Declared Troubled** – should be 5 or 6 not 10 as noted in at least two places in the report. The first year declared PHAS troubled was FFY2002 but HUD's REAC did not declare NLHA Substandard under FASS until **8/23/03** for its FY2002 PHAS. At that time they were Substandard Financial. For the FYE 2001, NLHA was declared Substandard Troubled, but that designation did not occur until 1/16/2004, after the FYE2002 declaration had been made.

**Comment 6**

**The NLHA did not become "Overall Troubled" until 5/26/2004 for its FYE 2003.** Accordingly, NLHA has actually been declared overall troubled for the past 5 years. (Your report Pages 5, 6)

**Comment 6**

**Official PIH ARRA Risk and Strategy** - When your office originally began this review we reported to you that we had rated NLHA as "high risk" under the category of Troubled PHAs for purposes of ARRA monitoring. However, after that time as the strategy was implemented, a review panel of HQs, FO and RPC determined that NLHA was a "Medium" Risk ARRA Troubled PHA and the strategy for medium risk PHAs is different from that of the high risk PHA. This strategy has been implemented and is in process in accordance with HQ OFO's requirements. (Your report, Pages 2, 10 and 11)

**Ref to OIG Evaluation**

**HUD Comments**

**Other misc. comments:**

**Comment 6**

- On p. 2, under “what we recommend”, second paragraph needs grammatical clarification; “For each recommendation in the body of the without...????”

**Comment 6**

- On p.11, the beginning of the final bullet needs grammatical clarification; “It to expend \$91,027 for its staff to administer ...”

**Comment 7**

- Recommendation 1A and 1D are completed (or already implements) actions by the Hub and RPC and have no impact on any new corrective actions by the NLHA or the Hub Office and should be removed.

**Comment 6**

- In the Background and Objectives section, it states that NLHA administers 331 federal housing units. The number is actually 225, unless IG is including HCVP units, which should not be included as CFP does not apply to them.

## OIG Evaluation of Auditee Comments

- Comment 1** We agree that some responsibility should be placed on the executive director. However, the board's inability to effectively identify and correct the Authority's material deficiencies allowed the deficiencies to continue. Therefore, we modified the report to read "This condition occurred due to the executive director's improper actions and continued uncorrected due the board of commissioners' inability to identify and correct long-standing management, financial, and physical deficiencies."
- Comment 2** The auditee's response shows that despite multiple sources that reported long-standing serious deficiencies the Board did not fully understand the depth of the Authority's problems. The deficiencies were reported through memorandums of agreement with HUD to correct multiple material management and financial deficiencies since 1998, HUD's designation as a troubled housing Authority since May 2004, failing REAC physical condition scores, and a 2008 independent audit report that questioned the Authority's solvency.
- Regarding the physical condition on of the properties, HUD's Real Estate Assessment Center reported that the Authority's two housing projects did not meet HUD's minimum physical quality standards in 2003, 2006, and 2009. The two properties scored only 44 of 100 possible points with more than one life threatening exigent safety deficiencies during the most recent inspection conducted on 2/9/2009.
- Comment 3** The Authority's Board indicated that the executive director hindered its attempts to oversee the Authority's operations, however, the Board ultimately responsible and could have considered removing the director for failing to act as directed by the Board.
- Comment 4** The hiring of a new fee accountant should improve the Authority's financial controls and reporting. However, an on-site financial manager should be considered to ensure the Authority properly manages its cash flow, pays it bills on time, and carefully manages it day to day financial operations.
- Comment 5** The Authority's Annual Contribution Contract with HUD requires the Authority to maintain complete and accurate books of account for the projects in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit. The Authority's books and records could not show that the Authority incurred \$91,027 in administrative costs for the program. Therefore, we determined the amount was unsupported and must be supported or repaid.

## OIG Evaluation of HUD Comments

**Comment 6** The comments were considered and the report was adjusted to reflect the updated information provided by HUD or to make the report factually correct.

**Comment 7** This finding shows that HUD's previous efforts have been ineffective in correcting the Authority's long standing deficiencies and ensuring that the Authority complied with its requirements. It is because of HUD's previous ineffective efforts and new stated corrective actions now being implemented that we did not remove recommendations 1 A and 1D (now 1A and 1B), but also revised 1A to ensure that there is a resolution in-line with HUD regulations and requirements. Recommendation 1A requires the Deputy Assistant Secretary to: "Inform the Assistant Secretary for Public and Indian Housing of the Authority's inability to improve its score or meet the goals of the memorandum of agreement with HUD and determine the statutory remedies required under section 6 (j) of the U.S. Housing Act of 1937." This is to ensure that Assistant Secretary is provided information to assist in the administration of the Recovery Act.



## Appendix C

### SUMMARY OF PROCUREMENT DEFICIENCIES

	Contract Description	Contract Date	Contract Amount	% completed	Paid as of 6/1/2009	% paid	Procurement Type	Contract Deficiencies
1	Masonry repairs	8/14/2008	\$393,546	100%	\$261,088	66%	sealed bid	1,8,12
2	Security system installation	7/2/2008	\$192,830	100%	\$165,776	86%	sealed bid	1,4,5,6,8,9,10,12
3	Painting hallways and stairwells	no contract	\$26,500	100%	\$26,500	100%	sealed bid	2,4*,5,6,7,8,10,12
4	Construction boys & girls club	no contract	\$9,500	100%	\$9,500	100%	noncompetitive	2,3,4*,5,6,7,8,10,12
5	Architect and engineering for masonry repairs	8/23/2008**	\$22,000	100%	\$22,000	100%	noncompetitive	2, 3, 4,5,6,7**,8
6	Security Patrols	3/18/2008	none		\$137,392		noncompetitive	11

#### Deficiency Legend –

- |   |   |
|---|---|
| 1 Contract awarded without sufficient funds for payment   | 7 Formal written contract not executed  |
| 2 Contract not advertised to the public   | 8 Required clauses not invoked to protect the Authority' interests (HUD Form 5370, 5370C, or 5370 EZ) |
| 3 Noncompetitive procurement not justified  | 9 Proof of performance and payment bonds not obtained   |
| 4 Cost estimate not prepared to verify cost reasonableness  | 10 Proof of insurance not obtained  |
| 5 Evaluation of bids not on file to show the contractor was responsive and capable of successfully completing the project | 11 Contract did not limit costs to the Authority  |
| 6 Adequate procurement history not maintained   | 12 Minimum wages not verified   |

\* Additional audit procedures indicated that the price paid was reasonable for the work/services provided

\*\* The Architect worked for one year without a contract