




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

Phone (617) 994-8380 Fax (617) 565-6878
Internet <http://www.hud.gov/offices/oig/>

MEMORANDUM NO:
2012-BO-1801

January 6, 2012

MEMORANDUM FOR: Jennifer Gottlieb Elazhari, Program Center Coordinator, Hartford Field Office, 1EPH
Craig Clemmenssen, Director, Departmental Enforcement Center, CACB

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

SUBJECT: Corrective Action Verification
Housing Authority of the City of Danbury
Procurement Practices
Audit Report 2004-BO-1004

INTRODUCTION

We performed a corrective action verification review of the audit recommendations made on the procurement practices of the Housing Authority of the City of Danbury for finding 5 of Audit Report Number 2004-BO-1004, issued December 5, 2003. This review was based on a complaint. The purpose of the review was to determine whether the selected audit recommendations were implemented and the deficiencies cited in the report were corrected.

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

SCOPE AND METHODOLOGY

The corrective action verification review focused specifically on recommendations 5A and 5E from the 2003 audit report. To accomplish our objective, we reviewed the 2003 audit report, as

well as, the HUD management decisions and supporting documentation used by HUD to close the recommendations. We also reviewed applicable HUD regulations regarding the procurement of goods and services and the Authority's financial statements, organizational structure, board minutes, contract logs, vendor payment history, and procurement policies. We interviewed staff from the Authority as necessary. We also selected and reviewed a non representative sample of 14 contracts¹ to evaluate whether the Authority implemented sufficient internal controls to ensure that the executed contracts followed Federal procurement regulations. The review period covered January 1, 2009, through December 31, 2010.

BACKGROUND

We reported five findings in our 2003 audit of the Authority's Public Housing Capital Fund program (Audit Report Number 2004-BO-1004). Finding 1 of the report noted that the Authority was in default of the \$11 million variable rate demand general obligation bonds under the indenture of trust, which occurred because \$2.3 million in improper bond-related transactions was approved by the Authority's executive director. Also the Authority's board of commissioners lacked adequate management controls and oversight of bond transactions. Finding 2 of the report noted that the \$11 million in general obligation bonds was not financially viable. Had the Authority not defaulted on the \$11 million in bonds (finding 1), it still risked financial difficulty in repaying the bonds, which was caused by a serious cash flow problem resulting from the executive director's poor planning and operating elements related to the Authority's \$11 million in bonds. Finding 3 noted inadequate management oversight of Authority property and financial records, which occurred because the Authority was not managed effectively and efficiently. In addition, the Authority lacked adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones, and credit cards. Finding 4 noted that the Authority had incurred \$92,816 in costs that were ineligible, unsupported, and unreasonable because it did not establish adequate controls over the issuance of checks and the use of its credit cards and cellular phones. Other factors contributing to this noncompliance were the board of commissioners' failure to exercise its leadership and monitoring functions to adequately question the executive director's actions and the finance director's failure to properly monitor credit card payments. Finding 5 noted that procurement practices were ineffective and the Authority's procurement practices did not comply with HUD's regulations and its own procurement policy. The deficiencies included

- Architect and construction contracts awarded without competition,
- Sole source contract awards not justified,
- Labor standards omitted,
- Services paid for without a contract,
- Change orders not appropriate and not approved by the board of commissioners, and
- Bid proposals and contract documents missing.

¹ We reviewed a total of 14 contracts consisting of 5 Capital Fund Program contracts and 1 Section 8 contract during audit survey and 7 operations contracts and 1 Section 8 contract during audit verification.

This condition occurred because the Authority's management did not fulfill its responsibility to establish and implement effective internal controls over the procurement process. The corrective action verification focused on recommendations 5A and 5E from finding 5. We had recommended that the Assistant Secretary for Public and Indian Housing instruct the Authority to

- 5A. Adhere to HUD regulations and its own procurement policy in awarding competitive sole source contracts.
- 5E. Maintain documentation supporting the basis for contracts awarded, including history of procurement and appropriate analysis.

Finding 5 Management Decisions

In response to recommendation 5A, the Authority was required to request approval for all Federal procurements over \$8,000 until acceptable performance had been documented by HUD. In accordance with this management decision, the Authority requested two such procurement approvals. The approvals were both requested on January 19, 2005, and both were granted on February 17, 2005. The Authority was also required to provide documentation showing that Authority staff responsible for procurement had received procurement training. A memorandum from HUD's Recovery and Prevention Corps (HUD)² was provided, which stated that all staff from the Authority responsible for procurement had received training. Effective March 1, 2005, HUD concluded that the Authority had satisfied the requirements of recommendation 5A.

In response to recommendation 5E, the Authority was required to maintain contract files containing documentation supporting the basis for contracts awarded, including the history of the procurement and appropriate analysis of the award. Those files were to be made available to HUD staff for review. The Authority also provided new language in its newly revised procurement policy regarding record retention. The new policy requires the Authority to keep all contracts and modifications in writing with clear specification. The Authority was also required to maintain documentation regarding the history of the procurement, including the method of procurement chosen, the selection of the contract type, the rationale for selecting rejected offers, and the basis for the contract price. HUD had reviewed the contract files on site and determined that the files fully complied with all requirements. The Authority was also required to provide documentation showing that Authority staff responsible for procurement had received procurement training. A memorandum from HUD was provided, which stated that all staff members from the Authority who were responsible for procurement had received training. Effective April 19, 2005, HUD concluded that the Authority had satisfied the requirements of recommendation 5E.

RESULTS OF REVIEW

The corrective action verification found that the Authority did not effectively implement recommendations 5A and 5E in the prior audit report. We determined that the Authority

² HUD's Recovery and Prevention Corps supports HUD's Office of Public Housing field offices to prevent at-risk public housing agencies from becoming troubled and facilitate the recovery of troubled agencies. The Corps provides specific technical assistance, training, and consulting services to program centers and program areas within HUD's Office of Public and Indian Housing.

- Did not always follow HUD regulations in awarding competitive sole source contracts.
- Did not always maintain adequate documentation supporting the basis for contracts awarded.
- Failed to always maintain an adequate contract log detailing its past and present procurements, making it difficult to determine the number of contracts executed, their amount and type, and their current status.
- Had multiple versions of its procurement policy.
- May have violated ethical standards.

The Authority Did Not Always Follow Federal Procurement Regulations or Its Own Procurement Policy

Procurement regulations are contained in the Code of Federal Regulations (24 CFR 85.36). These regulations require the Authority to

- Conduct all procurement in a manner to provide full and open competition (24 CFR 85.36(c)(1)).
- Maintain sufficient records to show the history of the procurement. The records should include the rationale and justification for the method of procurement, the type of contract, the selection of the contractor, and the basis for the contract price (24 CFR 85.36(b)(9)).

The Authority's procurement policy dictates that procurement by noncompetitive proposals (sole source) may be used only when (1) the award of a contract is not feasible using small purchase procedures, sealed bids, cooperative purchasing, or competitive proposals and (2) after solicitation of a number of sources, competition is determined inadequate. Each procurement based on noncompetitive proposals must be supported by a written justification for the selection of this method. The justification must be approved in writing by the responsible contracting officer, which is the executive director for this Authority. In addition, the reasonableness of the price for all procurements based on noncompetitive proposals must be determined by performing a cost analysis.

We reviewed 14 contracts, consisting of 5 Capital Fund program contracts, 2 Section 8 contracts, and 7 operations contracts executed by the Authority. Although the Authority properly procured the five Capital Fund program contracts and two Section 8 contracts, we identified deficiencies in six of the seven operations contracts reviewed. Specifically, the Authority did not follow HUD regulations in awarding competitive and sole source contracts and did not maintain adequate documentation supporting the basis for contracts awarded as required.

Operations Contracts

We identified many deficiencies in six of the seven operations contracts reviewed, including insufficient evidence that contracts were adequately competed, missing contract forms and provisions, lack of justification supporting sole source contracts, and board of commissioners approvals signed after contract execution or missing. Further, we discovered that forms were

added to the contract files after our request to review them and in some cases, correction fluid was used to conceal the printer header showing the date printed. The executive director acknowledged that the contract files were removed from the Authority by the former purchasing director and that, upon their retrieval, they were missing key documents that she then added or reproduced for the file before giving us the files. The executive director explained that she was trying to present the files as she believed them to have been before they were removed and there was no intent to deceive. However, regardless of intent, the former Purchasing Director and current executive director are responsible for source documents being altered and the executive director performed a management override of the PHA system of internal controls over procurement and may have violated its ethics standards . The following contracts were reviewed.

Automated Waste Disposal Inc.

This 3-year contract, executed on August 28, 2008, for trash services totaling an estimated \$286,560, followed Federal procurement regulations and the Authority's procurement policy.

KONE, Inc.

This 5-year contract, executed on April 21, 2008, for elevator services totaling an estimated \$56,000, did not follow Federal procurement regulations or the Authority's procurement policy. Specifically, the contract may not have been advertised or competed adequately, a cost or price analysis may not have been completed, and many of the required contract forms and provisions were not included in the file. Additionally, the file did not include a board resolution approving the contract. The Authority's procurement policy requires board approval for contracts ranging from \$25,000 to \$100,000. There was also no evidence in the file that the contractor maintained liability insurance to protect the Authority from claims. The original contract file was disorganized, and much of the required procurement documentation was missing. Some of the documents included in the file, such as the contracts, were not signed by the Authority.

Amtech Pest and Wildlife Management Control, Inc.

This 3-year contract, executed on November 6, 2008, for pest control services for approximately \$13,360 per year, generally followed Federal procurement regulations and the Authority's procurement policy. However, the file did not include an excluded parties list system form showing that the contractor had not been debarred. Also, the contract provisions did not permit access to contractor records or require record retention for 3 years.

Casterline Associates, P.C.

This single bid contract, executed on July 16, 2009, for financial and consulting services not to exceed \$96,000, did not follow Federal procurement regulations or the Authority's

procurement policy. Specifically, it was not competed adequately as the Authority received only one bid, although the contract was advertised adequately. Also the Authority might be able to justify awarding the contract as a single bid contract, but the file did not include justification or a price analysis or other evaluation showing that the proposal was competitive and adequately competed. Regulations at 24 CFR 85.36(b)(9) provide that grantees will maintain records sufficient to detail the significant history of a procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Documents in the file indicated that the Authority had a working relationship with Casterline before the award of the contract in 2009. This working relationship could have been used by the Authority as part of its justification had it chosen to prepare one, but there were no such documents to support this single bid contract.

Additional discrepancies noted during our review included that (1) the board resolution was dated August 20, 2009, nearly a month after the contract award, and was not signed; (2) the printout of the excluded parties list system legal notice was added to the file and correction fluid was used to hide the printer header identifying the date the notice was printed; and (3) all required forms listed in the request for proposals, such as HUD forms 5369-C and 5369-B and insurance documents, were not signed or included as part of the contract agreement. The Authority's procurement policy requires board approval for contracts ranging from \$25,000 to \$100,000. Further, we discovered that forms were added to the contract files after our request to review them and in some cases, correction fluid was used to conceal the printer header showing the date printed. The executive director acknowledged that the contract files were removed from the Authority by the former purchasing director and that, upon their retrieval, they were missing key documents that she added or reproduced for the file. The executive director explained that she was trying to present the files as she believed them to have been before they were removed and there was no intent to deceive.

Norbert E. Mitchell Co., Inc.

This sole source 1-year contract, executed on October 22, 2009, for fuel oil totaling \$92,463, generally followed Federal procurement regulations and the Authority's procurement policy. The lone exception was that the Authority's board resolution (#832) was not signed until January 21, 2010, 3 months after the contract was executed. The Authority's procurement policy requires board approval for contracts ranging from \$25,000 to \$100,000.

Cramer and Anderson LLP

This single bid contract, executed on May 24, 2010, for legal services totaling \$100,000, did not follow Federal procurement regulations or the Authority's procurement policy. Specifically, it was not competed adequately, although it was adequately advertised. The contract was procured as a noncompetitive proposal, although there were two responsive bidders. It appears that the Authority disregarded the second proposal, as there was no

mention of the proposal in the contract file. This situation may have occurred because the Authority had an existing relationship with one of the legal representatives at Cramer and Anderson LLP for the previous 5 years.

Additionally, the contract in the file was signed only by the contractor and, as in the case of the Casterline Associates, P.C., file, the printout of the excluded parties list system legal notice was added to the file, and correction fluid was used to hide the printer header identifying the date the notice was printed. Further, we discovered that forms were added to the contract files after our request to review them and in some cases, correction fluid was used to conceal the printer header showing the date printed. The executive director acknowledged that the contract files were removed from the Authority by the former purchasing director and that, upon their retrieval, they were missing key documents that she added or reproduced for the file. The executive director explained that she was trying to present the files as she believed them to have been before they were removed and there was no intent to deceive.

Wayne Baker, Esq.

This 2-year contract, executed on June 28, 2010, for a hearing officer totaling an estimated \$21,000 to \$31,500 per year, generally followed Federal procurement regulations and the Authority's procurement policy. However, as in other files reviewed (Casterline Associates, P.C., and Cramer and Anderson LLP), the file contained updated information that was printed and added to the file to make it appear complete. Namely, it appeared the independent cost estimate, copy of the legal notice, and various resumes of the respondents were added to the file. In the case of the resumes, many showed updates in 2011, while the contract was awarded in June 2010. Once again, correction fluid was used to conceal the date on the printer header.

Capital Fund and Section 8 Contracts

We reviewed five Capital Fund³ contracts and determined that the Authority had implemented sufficient internal controls to ensure that the contracts executed were made in accordance with Federal procurement regulations. Specifically, the contracts were obligated in a timely manner, the proper procurement method was used, there was adequate competition, a proper evaluation and selection occurred, the cost was reasonable, contract provisions were included, and that the contractor was properly insured and bonded. No exceptions were noted. Additionally, we reviewed two Section 8 contracts. The first, a 2-year contract for inspection services totaling \$64,000 with Elite Inspections, LLC, followed Federal procurement regulations and the Authority's procurement policy. The second, a lease agreement with Lumar Lake Avenue Realty, LLC, was not reviewed because the Authority funded the lease using earned Section 8 administration fees and was exempt from following Federal procurement regulations.

Contract Log and Procurement Policy Discrepancies

³ We reviewed the following five Capital Fund contracts: (1) Danbury Septic Contractors, (2) Empire Paving, (3) Sisca Northeast, Inc., (4) Management Strategies, Inc., and (5) J.D. Amelia & Associates, LLC.

The Authority failed to maintain an adequate, comprehensive contract log detailing its past and present procurements, making it more difficult to manage its active contracts and review past contracts and increasing the likelihood of errors. Upon our request, the Authority initially provided three separate lists identifying its Capital Fund program contracts, Section 8 contracts, and operational contracts. We asked the Authority to provide an updated, comprehensive single file contract log and learned that the updated log was not consistent with the three previous lists provided. Noticing discrepancies, we informed the Authority and requested a revised contract log, which also contained discrepancies. Inconsistencies included contract dates, amounts, durations, and other terms. When comparing the new listing to the old separate listings, we discovered 8 contracts that were on the new listing but not the old and 16 contracts that were on the old listings but not the new. The Authority's executive director blamed the former purchasing director, who she stated had stopped maintaining a contract log sometime in November 2010 and whose employment with the Authority was terminated in February or March 2011. The Authority needs to create a complete, comprehensive contract log to track its contracts going forward.

Additionally, during the course of our review, the Authority provided three versions of its procurement policy. After we questioned missing information in the first procurement policy received, the Authority's executive director provided a new procurement policy in May, 2011. That document, labeled "Procurement Policy 2011," indicated that it was last revised on May 21, 2009, but no board resolution number was cited for that revision. In August 2011, the Authority provided yet another procurement policy, labeled "Statement of Procurement Policy," which was last revised on April 16, 2009, citing board resolution number 788. Although the last two policies provided were comparable in content, the multiple versions could cause confusion among Authority staff in determining what policy was in effect.

CONCLUSION

The corrective action verification found that the Authority did not effectively implement recommendations 5A and 5E in the prior audit report. It had not implemented adequate procedures and controls to ensure that it followed HUD regulations and its own procurement policy in awarding competitive or sole source contracts. Further, it had not maintained adequate documentation supporting the basis for contracts awarded, including the history of the procurement and appropriate analysis.

RECOMMENDATIONS

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

- 1A. Reopen recommendations 5A and 5E in HUD's Audit Resolution and Corrective Action Tracking System to ensure that the Authority follows Federal procurement regulations and its own procurement policies and maintains adequate supporting documentation.

- 1B. Require the Authority to create and maintain a complete, comprehensive contract log to track its past, current, and future contracts.
- 1C. Consider documenting the concerns raised in this memorandum in any executed intervention strategy agreement between HUD and the Authority.
- 1D. Conduct periodic inspections of the Authority's procurement activities to ensure compliance with Federal procurement requirements.

We recommend that the Director of HUD's Departmental Enforcement Center

- 1E. Review the actions of the Authority's executive director and take appropriate administrative actions if warranted.

AUDITEE'S RESPONSE

We provided Authority officials a draft memorandum on December 15, 2011, and held an exit conference on December 21, 2011. The Authority officials provided written comments on January 4, 2012, in which they agreed with our results and recommendations and indicated that they had begun to take corrective action to eliminate the conditions cited in this memorandum. The complete narrative text of the Authority officials' response may be found in Appendix A of this memorandum.

Appendix A

AUDITEE COMMENTS



Housing Authority of the City of Danbury

2 Mill Ridge Road
Danbury, CT 06811
203-744-2500 Tel
203-743-8853 Fax

DOMENICO CHIEFFALO, CHAIRMAN
RAYMOND YAMIN, COMMISSIONER
STANLEY WATKINS, COMMISSIONER
MARY TEICHOLZ, COMMISSIONER
JAMES ZEH, RESIDENT COMMISSIONER

M. CAROLYN SISTRUNK, EXECUTIVE DIRECTOR

January 4, 2012

Mr. John Dvorak
Office of the Inspector General for Audit Region 1
U.S. Department of Housing and Urban Development
Thomas P. O'Neill, Jr. Federal Building
10 Causeway Street, Room 370
Boston, Massachusetts, 02222-1092

**RE: Corrective Action Verification
Housing Authority of the City of Danbury
Discussion Draft Issued December 15, 2011
Procurement Practices
Audit Report 2004-BO-1004**

The Housing Authority of the City of Danbury ("HACD") would like to thank the Office of the Inspector General ("OIG") for the opportunity to provide comments on the Discussion Draft of Corrective Action Verification (VCA) Memorandum issued December 15, 2011. The VCA's objective was to determine whether audit recommendations for December 23, 2003 OIG Audit Report 2004-BO-1004, entitled, the Danbury Housing Authority, Capital Fund Program, were implemented and the deficiencies cited in the report were corrected.

Since 2004, the Department of Housing and Urban Development, the City of Danbury, HACD's Board of Commissioners and Staff have undertaken mission-critical corrective action and forward planning strategies designed to address the financial solvency cited in the subject audit report. They are:

1. Repayment of the six million, five hundred thousand dollar (\$6.5M) Wachovia Bank debt obligation at a negotiated settlement rate of three million, five hundred thousand dollars (\$3.5 million) in 2007.
2. Repayment of 2002-2003 Section 8 overpayments in the amount of two million, eight hundred thousand dollars through the disposition of scattered site units purchased with the Section 8 funds. (\$ 2. 8 million repaid as of December, 2011.)

**SI USTED NO COMPRENDE ESTA CARTA POR FAVOR LLAME A LA OFICINA.
GRACIAS.**



AUDITEE COMMENTS

PAGE TWO

3. Through public-private partnership, the sale of High Ridge Gardens that have been rehabilitated into 60 affordable homeownership units (11 homeowners with section 8 vouchers)
4. A Stetson Place settlement and recovery of one million two hundred thousand dollars (\$1.2M) for HACD and, more importantly, a collaboration with commitment community nonprofits that resulted Section 8 Homeownership for ten (10) disabled persons
5. A successful legal action and ultimate judgment in the amount of \$1.2 million dollars against the High Ridge Gardens Developer.
6. 2006 restoration through the outsourcing of HACD's Capital Fund Program that had been suspended since 2002 that resulted in continuous improvement in its administration of its capital and public funds.
7. Recovery of \$42,000 in ineligible bonuses from former HACD employees.

HACD' RESPONSE TO THE DECEMBER 15, 2011 VERIFICATION OF CORRECTIVE ACTION (VCA) RECOMMENDATIONS

As a general matter, the HACD appreciates the OIG's comments that Capital Fund and Section 8 small purchases and contracts reviewed during the course of this VCA complied with Federal and HACD's procurement policy.

Regarding the operational purchases and contracts examined during the VCA review period wherein cited deficiencies resulted in the recommended reopening of 5A and 5E, the HACD agree with the recommendations and have commenced the implementation of procurement policy/program administration improvements (See Attachment One). Further, the HACD agree to work cooperatively with HUD in the development of an intervention strategy that incorporates incremental inspection of the Agency's contracting program and associated controls.

The HACD is compelled to adopt this position for the simple reason that the Agency lack original procurement records necessary to provide assurance of effective 5A and 5E corrective actions. As the VCA Memorandum correctly disclosed, a former employee, an executive staff member, removed all active and original procurement files from the Agency without authorization. The volume of procurement records removed is inconsistent with HACD's "working at home" practice.

HACD recovered the procurement files from the former employee's residence. An examination of the recovered files disclosed major gaps inconsistent with the documentation presented with the original request for approval. In short, the recovered procurement files were void of due diligence documents and original signatures of the former employee. The due diligence documentation gaps include independent costs estimates; evaluation summaries; recommendation memos and associated attachments memos; signed contracts etc.

AUDITEE COMMENTS



Housing Authority of the City of Danbury

2 Mill Ridge Road
Danbury, CT 06811
203- 744-2500 Tel
203-743-8853 Fax

DOMENICO CHIEFFALO, CHAIRMAN
RAYMOND YAMIN, COMMISSIONER
STANLEY WATKINS, COMMISSIONER
MARY TEICHOLZ, COMMISSIONER
JAMES ZEH, RESIDENT COMMISSIONER

M. CAROLYN SISTRUNK, EXECUTIVE DIRECTOR

PAGE THREE

Regarding the recommendation that the HUD Enforcement Center review the actions of the Executive Director for appropriate administrative actions- if warranted- the HACD and its Executive Director agree to fully cooperate with this review.

In response to the internal control and ethical questions cited in this VCA, the HACD has developed a comprehensive records management, retention; disposition; and recovery policy with associated sanctions in the event of violations (See Attachment Two).

Again the HACD would like to thank to the Office of the Inspector General for its professional and balanced approach during the VCA review period. If you have any questions and/or concerns, please contact me at (203) 743-8822.

Respectfully

M. Carolyn Sistrunk
Executive Director
Housing Authority of the City of Danbury

SI USTED NO COMPRENDE ESTA CARTA POR FAVOR LLAME A LA OFICINA.
GRACIAS.

