OFFICE OF AUDIT
REGION 1
BOSTON, MA

The Housing Authority of the City of Bridgeport, CT

Section 8 and Public Housing Programs

2014-BO-1003 JULY 31 2014

Issue Date: July 31, 2014

Audit Report Number: 2014-BO-1003

TO: Jennifer Gottlieb Elazhari,
Program Center Coordinator, Office of Public and Indian Housing, Hartford Field Office, 1EPHP

//**Signed**//

FROM: Edgar Moore,
Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: Authority Officials Did Not Always Follow HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the Housing Authority of the City of Bridgeport, CT, regarding its compliance with HUD's requirements and ensuring that costs were reasonable, eligible, and supported.

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

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

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

July 31, 2014

Authority Officials Did Not Always Follow HUD Requirements

Highlights

Audit Report 2014-BO-1003

What We Audited and Why

We audited the Housing Authority of the City of Bridgeport, CT, to address complaints and areas that came to our attention during a prior audit.[1] The objective of this audit was to determine whether expenses charged to Federal housing programs were eligible, reasonable, and supported. Specifically, we determined whether the City properly (1) charged development staff costs, (2) charged Section 8 consulting costs, (3) implemented flat rents, (4) loaned Federal funds, (5) performed renovation work at Greene Homes, and (6) followed conflict of interest rules.

What We Recommend

We recommend that the U.S. Department of Housing and Urban Development (HUD) require Authority officials to (1) update flat rents, (2) repay Federal housing programs more than $118,000 for the improper use of Federal funds, (3) correct unsafe renovations at the Greene Homes project and pay a contractor $5,000, and (4) obtain training and follow HUD's conflict-of-interest requirements.

What We Found

Although development staffing costs charged to the public housing program were eligible, reasonable, and supported and a complaint regarding consulting services charged to the Section 8 program was not substantiated, former Authority officials did not always follow HUD requirements. Specifically, (1) flat rents were not properly implemented, (2) Federal funds were improperly used for non-Federal entities, (3) renovation work was not safe and a contractor was underpaid, and (4) conflict-of-interest rules were not always followed. We attributed these conditions to inadequate controls over flat rents, poor management decisions, a lack of supervision, and officials' unfamiliarity with and failure to follow conflict-of-interest rules. As a result, the Authority lost millions of dollars in rental income, Federal funds were not used for their intended purpose, renovation work failed to meet standards, a contractor was underpaid, and conflicts of interest may have eroded public confidence in Federal programs. The Authority's recently hired officials were receptive to our findings and had started to take corrective actions.

[1] Report number 2014-BO-1001, January, 23, 2014

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Bridgeport, CT, was created under section 8-40 of the Connecticut General Statutes to provide low-income public housing for qualified individuals. The Authority has contracted with the Federal Government, acting through the U.S. Department of Housing and Urban Development (HUD), for financial assistance for low-income housing under the United States Housing Act of 1937 as amended. The Authority is governed by a five-member board of commissioners, which appoints an executive director to manage the day-to-day operations of the Authority. The Authority administered more than 2,800 Section 8 housing choice vouchers and more than 2,500 public housing low-rent units and expended approximately $29 million in Federal Section 8 Housing Choice Voucher program funds and $16 million in public housing funds in fiscal year 2012.[2] The chart below shows expenditures from 2010 to 2012.

Program	Expenditures (in millions)		
	2010	2011	2012
Section 8 Housing Choice Voucher	$28.8	$29.7	$29.6
Public housing	$13.1	$12.5	$16.4

Each year public housing participants choose the method used to determine their rent. They may choose to pay either a flat rent or income-based rent. For this public housing agency income-based rent is the higher of 30 percent of adjusted monthly income or 10 percent of monthly income but not less than the minimum rent of $50. Flat rents are based on the market rent charged for comparable units in the private, unassisted rental market considering (1) the location, quality, size, unit type, and age of the unit and (2) any amenities, housing services, maintenance and utilities provided by the agency. The flat rent is designed to encourage self-sufficiency and avoid creating disincentives for continued residency by families attempting to become economically self-sufficient.[3] During a prior audit, we found that flat rents may not have reflected market rates and may have been undercharged. Therefore, we focused our review on flat rents.

Our audit objective was to determine whether Authority officials followed HUD's requirements and ensured that expenses charged to Federal housing programs were eligible, reasonable, and supported. Specifically, (1) based on our prior audit work we reviewed flat rents, the use of Federal funds for non-Federal programs, development salary and benefit costs, and (2) Based on anonymous complaints we reviewed, renovation work at the Greene Homes housing project, Section 8 consulting costs, and conflicts of interest.

[2] The Authority's fiscal year is October 1 through September 30.
[3] 24 CFR(Code of Federal Regulations) 960.253
[4] 24 CFR 960.253

RESULTS OF AUDIT

Finding: Former Authority Officials Did Not Always Follow HUD Requirements

Authority officials did not always follow HUD requirements. Specifically, (1) flat rents were not properly implemented, (2) Federal funds were improperly used for non-Federal entities, (3) renovation work and a contractor penalty were not appropriate, and (4) conflict-of-interest rules were not always followed. We attributed these issues to inadequate controls over flat rents, poor management decisions, a lack of supervision, and officials' unfamiliarity with and failure to follow conflict-of-interest rules. As a result, millions of dollars in rental income had been lost since 2004, Federal funds were not used for their intended purpose, renovation work did not meet safety standards, a contractor was underpaid, and the public confidence in Federal programs may have been eroded.

Flat Rents Were Not Properly Implemented

HUD requires housing authorities to update flat rents at least annually to reflect market rates.[4] However, Authority officials had not implemented a flat rent update since 2004. We attributed this condition to inadequate oversight and the Authority's procedures, which required only periodic review.[5] As a result, the rent charged to 161 tenants who selected the flat rent option was materially below the required amount, and officials failed to collect millions of dollars in rental income that could have been used to operate and maintain Federal housing for families. We estimated the annual loss to be $51,364 per month, or $616,368 per year, in rental income.

Recently hired Authority officials agreed with our finding and as a result of our audit, took corrective action, completed a flat rent study, published the study for public comment, and were adjusting the rents. The officials expected that most tenants would be paying the updated flat rent by July 2014.

Former Officials Improperly Used Federal Funds

Former Authority officials improperly used $106,935 in Section 8 and public housing program funds to renovate non-Federal housing properties in 1999. The chief financial officer discovered an accounts receivable and repaid $53,935 to the

[4] 24 CFR 960.253
[5] Admissions and Continued Occupancy Policy

Section 8 program on September 30, 2013. However, $53,000 was not repaid to the public housing program. The officials that used the funds no longer worked for the Authority so we could not determine the root cause for the ineligible use. Therefore, we attributed the Authority's failure to repay the $53,000 to its failure to record the loan as an account payable. As a result, $106,935[6] had remained unavailable to operate and maintain Federal housing for families for more than 13 years, and the non-Federal entities received interest-free loans estimated to be valued at $65,603 in forgone interest payments.[7]

Office Renovations Were Mismanaged

The Authority's maintenance staff used public housing operating funds to construct a break room and bathroom that failed to meet fire and safety building codes. Specifically, the walls, doors, and windows were not fire rated; thus, the space could not be used as a break room. However, maintenance workers continued to use the room. Further, other noncompliant conditions may exist; thus, the newly hired director of development agreed to conduct a third-party fire, safety, and building code inspection before using the space and determine whether it is economical to make the necessary changes for occupancy. We attributed the unsafe renovations to inadequate supervision and controls over the maintenance staff.

While reviewing a complaint that the Authority may have overpaid to construct office space at its Greene Homes project, we found that the Authority penalized the contractor for delays and underpaid the contractor $5,000. The work was delayed when the contractor was hospitalized. The Authority chose not to hire another contractor and allowed him complete the work. Thus, the contracted completion date was no longer valid, and the Authority failed to issue a change order to establish a new completion date. The Authority also continued to correspond with the contractor, providing him additional time to complete the work with no specified due date. Thus, the $5,000 deducted from the contract for delays was not supported.

Conflicts of Interest Were Not Handled Properly

HUD defines certain relationships with family members and political office holders as potential conflicts of interest that require approval.[8] However, Authority officials failed to disclose an apparent conflict of interest when they

[6] $106,935 = $53,000 + $53,935

[7] $65,603 = $33,288 for the public housing funds plus $32,315 for the Section 8 funds using the 1999 Federal prime mortgage rate, 7.43 percent

[8] Conflicts of interest are defined in the Authority's consolidated annual contributions contract with HUD, Form HUD 53012, section 19.

contracted with a director's family member to perform work for the Authority's Federal programs. After discussing the issue, the executive director took corrective action and terminated the contract.

The Authority also had a longstanding service contract with an individual who later became an elected official and thus had a HUD-defined conflict of interest. However, officials did not inform HUD or obtain the required approval. After discussing this issue, Authority officials agreed to request the waiver, and HUD officials indicated that they were inclined to approve a waiver for this individual to run an after-school program.

We attributed the issues described above to a lack of knowledge of and compliance with HUD's requirements. These conditions are of concern because failing to disclose and properly handle conflicts of interest increases the risk of damage to Federal programs and erodes public confidence in HUD's programs.

Conclusion

Authority officials did not always follow HUD requirements. Specifically, (1) flat rents were not properly implemented, (2) Federal funds were improperly used for non-Federal entities, (3) renovation work and a contractor penalty were not appropriate, and (4) conflict-of-interest rules were not always followed. These conditions occurred due to inadequate controls over flat rents, prior officials' poor management decisions and lack of supervision, and officials' unfamiliarity with and failure to follow conflict-of-interest rules. As a result, the Authority lost millions of dollars in rental income, Federal funds were not used for their intended purpose, renovation work failed to meet standards, a contractor was underpaid, and conflicts of interest may have eroded public confidence in Federal programs. However, the Authority's recently hired officials were receptive to our findings and had started to take corrective actions, which if properly implemented should improve supervision and management decisions.

Recommendations

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

1A. Complete the Authority's update of flat rents and implement procedures to ensure that flat rents are updated at least annually, which we estimate may result in $616,368 in additional revenue each year for the Authority's Federal housing projects.

1B. Repay $86,288 to the restricted public housing reserve account from non-Federal funds for an improper non-Federal use of public housing funds in 1999 ($86,288 = $53,000 loaned + $33,288 in forgone interest).

1C. Repay $32,315 to the Section 8 program for interest due for the $53,935 loan, which accrued between 1999 and September 31, 2013.

1D. Do not allow access to the Green Homes basement break room and bathroom until corrective action is taken to make them safe for occupancy.

1E. Conduct a fire, safety, and building code inspection of the renovations completed by the maintenance staff and bring the project up to code if it is economical to correct the deficiencies.

1F. Support or pay the contractor $5,000 from Federal funds for the amount deducted from the Greene Homes office renovation contract for construction delays, since the work has been completed.

1G. Obtain training for the Authority's board and director-level staff regarding HUD's conflict-of-interest requirements.

1H. Establish and implement additional controls to ensure that conflicts of interest with executed contracts are identified, disclosed, and approved in accordance with HUD's requirements.

SCOPE AND METHODOLOGY

The review focused on our concerns regarding flat rents, the use of Federal funds for non-Federal programs, development staffing costs, renovation work, consulting costs, and conflicts of interest. To accomplish our audit objective, we

- Reviewed laws, regulations, and HUD guidance related to the objective, including Federal appropriations acts, and the Authority's annual contributions contracts with HUD.

- For flat rents, we reviewed the Authority's flat rent study completed during our audit, evaluated the rent charged for all 161 tenants who selected the flat rent option, and estimated the loss of income due to the Authority's failure to update flat rents since 2004.

- For development staffing costs, we evaluated procedures for charging the costs to the public housing projects and reviewed the general ledger and supporting documents for fiscal year 2012 to verify whether the charges were eligible and adequately supported.

- For the use of Federal funds for non-Federal purposes, we interviewed officials and reviewed board meeting minutes to determine the reason for using the funds in 1999 and reviewed the general ledger and bank statements to determine whether the funds were properly recorded and repaid.

- For office renovations at the Greene Homes public housing project during 2012, we interviewed staff, reviewed the contract and payment history, and completed a walkthrough inspection to determine whether Federal funds were misspent.

- For Section 8 consulting services identified in the complaint, contracted in 2009 and 2011, we reviewed the contract and payment history and supporting documents and interviewed staff to determine whether the contractor was overpaid for the work completed.

- For recent hiring's, we reviewed the Authority's procedures, interviewed hiring officials, and reviewed personnel files to identify conflicts of interest and material deviations from requirements.

We relied on the Authority's Visual Homes tenant database to estimate the amount of overpaid or underpaid flat rents.[9] The data showed that rental income may increase $51,364 per month, or $616,368 per year, if officials implement the January 2014 flat rent schedule for the 161 tenants

[9] Visual Homes is the commercial software database the Authority uses to manage its public and Section 8 housing programs. The database contains participants' income and flat rent data, including the amount of flat rent that is charged to participants who chose the flat rent option, and rent collected.

who selected the flat rent option. We verified that the flat rent data were incorrect and had not been updated since 2004. We did not test the reliability of the 161 flat rent participants' reported income because we used the income for estimating purposes only. We believe that we can reasonably rely on the system's accuracy for our estimate.

To determine the lost revenue, we calculated the difference between (1) the flat rent charged to participants who selected the flat rent option in February 2014 (based on 2004 rates) and (2) the updated flat rent amount that should have been charged based on 2014 market rates.[10] We multiplied the monthly loss by 12 to estimate the yearly loss of income.

We also estimated that the Authority failed to collect "millions" in flat rent revenue. We are confident in our estimate because Bridgeport's market rents consistently and incrementally increased between October 2004 and October 2013.[11] Thus, the amount of flat rent charges should have increased. However, the exact amount that flat rents should have increased was unknown because Authority officials did not conduct flat rent studies as required. Also, identifying all of the tenants who had selected the flat rent option since 2005 and their income would take considerable resources with little additional value. Therefore, based on the best and most cost effective information available and the more than $600,000 in current-year undercharges, we limited our estimate to "millions."

To calculate the amount of forgone interest for the use of $53,935 in Section 8 funds and $53,000 in public housing funds, we used the Microsoft Excel cumulative interest formula, the 1999 Federal prime 30-year mortgage rate of 7.43 percent, compounded and repaid monthly over the period of the loans from December 31, 1999, through September 30, 2013, for the Section 8 loan and from December 31, 1999, through April 30, 2014 for the public housing funds[12].

To meet the audit objective, the audit covered various periods between 1999, when the use of Federal funds for non-Federal purposes occurred, and January 2014, when the flat rent study was updated. We performed the audit fieldwork from January to April 2014 at the Authority's administrative office located at 150 Highland Avenue, Bridgeport, CT.

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

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[10] If the updated flat rent amount exceeded a participant's income-based rent, we used the lower amount.

[11] Market rents rose according to HUD's fair market rent for Bridgeport CT. The fair market rent is the 40th percentile of gross rents for typical, nonsubstandard rental units occupied by recent movers in a local housing market. However, flat rents cannot be determined using the fair market rent alone; they must be based on locations within Bridgeport and other factors that are not identified in the fair market rent.

[12] The Section 8 loan was repaid $53,935 from non-federal funds to the Section 8 HAP control Bank Account on September 30, 2013. However, as of March 20, 2014 there was no evidence that the loan made from public housing funds had been repaid.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

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

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

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

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- Authority officials did not have adequate controls to ensure that program objectives were met, that they complied with laws and regulations, and that they safeguarded resources when they failed to update flat rents, and failed to follow HUD's conflict-of-interest requirements (see finding).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A		$616,368
1B	$86,288	
1C	$32,315	
Totals	$118,603	$616,368

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/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if Authority officials implement our recommendation to update flat rents, they may increase rental revenue by $616,368 per year.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

Sharon L. Ebert, AIA
Interim Executive Director
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PARK CITY COMMUNITIES

The Housing Authority of the City of Bridgeport has changed its name!

July 9, 2014

Mr. Edgar Moore
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit, Boston Region 1
10 Causeway Street, Room 370
Boston, MA 02222-1092

RE: Draft Audit Report dated June, 2014 Regarding Authority Officials Did Not Always Follow HUD Requirements

Dear Mr. Moore:

I have reviewed the draft Audit Report *Regarding Authority Officials Did Not Always Follow HUD Requirements* findings and recommendations sent to the Housing Authority of the City of Bridgeport d/b/a Park City Communities on June 17, 2014 and offer the following comments:

1. The Authority's Low Income Public Housing (LIPH) Flat Rents were updated in March 2014;
2. We engaged an architectural firm which conducted a code review of the Greene Homes basement "employee break room" area and they have produced documents that we are now preparing to bid to have the space made code complaint;
3. **Comment 1** — We are in agreement with your findings that the contractor originally hired to perform improvements for the Greene Homes Housing Manager's Office spaces was improperly under paid by the previous Executive Director by $5,000.00 without cause and agree to pay the contractor the $5,000.00 deducted from the contract by the previous Executive Director;
4. We have procured training for the five Board Commissioners who will be attending Commissioner's Responsibility and Ethics training sessions next week at the NAHRO conference in Tampa FL and will continue to procure training this year for all Directors and Commissioners on Conflict of Interest training. In addition we have updated our Employee Disclosure Form to include a "perceived" conflict of interest question;
5. We will update our contracts and procurement procedures to include additional controls that will ensure there are no conflict of interests between employees, Commissioners and/or vendors; and
6. **Comment 2** — We respectfully request additional information on the repayment of the Section 8 and LIPH funds for the loans provide to the UIDC entity so that we can better understand the nature of the transaction which occurred in 1999 and how there is

Ref to OIG Evaluation **Auditee Comments**

evidence that these funds were not repaid by that entity to the Authority and that the Authority did not use those repaid funds for eligible Section 8 and LIPH activities.

Thank you for the opportunity to provide comments to your draft audit report.

Sincerely,

PARK CITY COMMUNITIES

Sharon L. Ebert, AIA

Sharon L. Ebert, AIA
Interim Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The Authority officials' planned actions in comments one through five are responsive to our recommendations and should be verified by HUD during the audit resolution process.

Comment 2 Authority officials requested additional information "on the repayment of the Section 8 and LIPH funds for the loans provided to the UIDC entity so they could better understand the nature of the transaction…and how there is evidence that these funds were not repaid by that entity to the Authority…" This information will be provided to the auditee and HUD to assist in the audit resolution period.