



# Housing Authority of the City of Bridgeport, CT

## Capital Fund, Low-Rent, and Housing Choice Voucher Programs



**To:** Jennifer Gottlieb Elazhari  
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//SIGNED//

**From:** Edward Jeye  
Regional Inspector General for Audit, Boston Region, 1AGA

**Subject:** The Administration of Accounting, Inventory, and Procurement of the Bridgeport  
Housing Authority in Bridgeport, CT, Did Not Always Comply With HUD  
Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Bridgeport Housing Authority officials' administration of the Authority's accounting, inventory, and procurement functions.

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 John Harrison, Acting Assistant Regional Inspector General for Audit, at 212-264-4174, or me at 617-994-8380.



**Audit Report Number: 2016-BO-1002**

**Date: June 27, 2016**

**The Administration of Accounting, Inventory, and Procurement of the Bridgeport Housing Authority in Bridgeport, CT, Did Not Always Comply With HUD Regulations**

## Highlights

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### What We Audited and Why

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We audited the Housing Authority of the City of Bridgeport, CT, in response to complaints about improper use of funds, procurement irregularities, and inadequate safeguarding of equipment. The audit objective was to determine whether Federal funds were used for eligible and adequately supported costs, procurements were executed in compliance with U.S. Department of Housing and Urban Development (HUD) regulations, and the Authority had established adequate controls to safeguard equipment.

### What We Found

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Authority officials had not always spent funds for eligible and adequately supported costs, procurement actions did not always comply with HUD regulations, and controls over inventory were not adequate. Specifically, Authority officials (1) spent more than \$542,000 for ineligible costs and more than \$6.2 million for inadequately supported costs; (2) failed to properly maintain and reconcile accounting records, resulting in the unsupported allocation of \$1.75 million; (3) charged \$216,142 and \$272,008 for legal and public relations services, respectively, that were not procured in compliance with Federal regulations; and (4) did not ensure that \$61,804 in inventory was put to its intended use. As a result, HUD lacked assurance that funds were always spent for eligible and properly supported costs, procurements were made at a reasonable cost, and inventory was accurately accounted for.

### What We Recommend

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We recommend that the Hartford Office of Public Housing's program center coordinator require Authority officials to (1) repay more than \$542,000 spent for ineligible costs; (2) provide documentation to support that more than \$6.2 million in inadequately supported disbursements was for eligible costs; (3) reconcile Authority accounting records to ensure that \$1.75 million was properly allocated; (4) show that \$488,150 spent for legal and public relations services complied with Federal procurement regulations; (5) properly account for inventory valued at \$61,804; and (6) strengthen controls over disbursement of funds, maintenance of accounting and inventory records, and procurement.

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# Background and Objective

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The Housing Authority of the City of Bridgeport, CT, was created under section 8-40 of the State of Connecticut General Statutes to provide low-income public housing for qualified individuals. The Authority is governed by a five-member board of commissioners, which appoints an executive director to manage the Authority's day-to-day operations. In 2014, the U.S. Department of Housing and Urban Development (HUD) provided the Authority more than \$3.6 million in Public Housing Capital Fund program funds and \$14 million in low-rent program funds to operate 2,698 low-rent units and \$22.6 million in Housing Choice Voucher program funds to administer 3,063 vouchers.

On December 20, 2014, HUD classified the Authority as "troubled" for its fiscal year ending September 30, 2013. In May 2015, HUD's Public Housing Authority Recovery and Sustainability Team performed an onsite independent assessment to determine the causes of the Authority's unacceptable performance outcomes and develop plans for sustained improvement. The assessment concluded that Authority officials (1) had an insufficient organizational structure, (2) had inadequate oversight of critical management functions and the Authority's capital planning and improvements process, (3) lacked a viable cost allocation plan, and (4) had not reconciled the Authority's financial accounts.

In fiscal year 2015, the Authority hired a new executive director and replaced many key program director positions. In addition, in November 2015, HUD and the Authority agreed to a recovery plan, which established desired outcomes to be achieved and a timetable to achieve those outcomes. As of the date of this report, Authority officials were actively working with the HUD field office to address corrective action strategies to ensure that policies and procedures are enforced and Authority staff is trained.

The audit objective was to determine whether Federal funds were used for eligible and adequately supported costs and procurements were executed in compliance with HUD regulations and the Authority had established adequate controls to safeguard equipment. This is the third audit of the Authority.<sup>1</sup>

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<sup>1</sup> Previously issued reports were 2014-BO-1001, January 24, 2014, and 2014-BO-1003, July 31, 2014.

# Results of Audit

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## **Finding: The Authority Had Weaknesses in Its Administration of Accounting, Inventory, and Procurement Functions**

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The Authority's administration of its accounting, procurement and inventory functions did not always comply with HUD regulations. We attributed this noncompliance to the Authority's board of commissioners' and officials' failure to establish an effective internal control environment to ensure adequate accounting for costs and inventory, proper implementation of HUD's asset management model, and compliance with Federal procurement regulations. As a result,

- \$542,206 in ineligible costs and more than \$6.2 million in unsupported costs were charged to Federal programs;
- Interfund accounts were not properly maintained and reconciled to adequately account for the expenditure of \$1.75 million in Federal funds, some of which was used for central office cost center (COCC) costs;
- Professional services contracts, for which \$488,150 in Federal funds was spent, were not properly procured,
- \$61,804 in inventory items could not be located.

### **Funds Spent for Ineligible and Unsupported Costs**

Authority officials charged \$542,206 for ineligible costs and \$6.2 million for unsupported costs as follows:

- Security patrol costs of \$444,876 were overcharged to the Capital Fund program because the costs were misclassified as management improvement costs rather than operating costs. While regulations at 24 CFR (Code of Federal Regulations) 905.314(1) permit charging certain operating costs, such as security patrol costs, to the Capital Fund program, operating costs are limited to 20 percent of the annual Capital Fund grant. Authority officials had already charged up to this limit; therefore, the \$444,876 was an ineligible Capital Fund program cost.
- General administrative costs of \$97,330<sup>2</sup> were improperly charged to the asset management projects and the Housing Choice Voucher and Capital Fund programs.

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<sup>2</sup> Of those charges, \$68,372 was charged to the low-rent program, \$10,216 to the Housing Choice Voucher program, and \$18,742 to the Capital Fund program.

Officials charged ineligible costs of \$78,588 to scan and store records to the asset management projects and Housing Choice Voucher program, \$11,000 for financial accounting software licenses to the Capital Fund program, and \$7,742 to purchase iPads for commissioners and COCC staff. Regulations at 24 CFR Part 990 and HUD Notice 2007-9<sup>3</sup> require that these costs be paid from COCC funds.

- More than \$5.5 million of the \$25 million in Capital Fund program and American Recovery and Reinvestment Act costs reviewed lacked invoices or similar supporting documents to show that they were disbursed for eligible purposes. Regulations at 2 CFR Part 225, appendix A, C.1.j and C.3.a, require that costs be adequately documented.
- More than \$650,000 in information technology costs was improperly charged to the Capital Fund program and was considered unsupported. Federal regulations at 24 CFR 905.202(g) require that Capital Fund program funds be used for asset management projects, and a reasonable allocation of the costs to the benefiting entities is required when goods and services benefit multiple programs. While these costs benefited the asset management projects, the Housing Choice Voucher program, and the COCC, officials charged all of the costs to the Capital Fund program.

We attributed these conditions to the Authority officials' failure to establish an effective internal control environment and properly implement HUD's asset management model.

#### **Authority Accounts Not Properly Maintained and Reconciled**

Authority officials failed to adequately maintain and reconcile the Authority's financial records. Regulations at 24 CFR 990.280(b)(4) and (c) prohibit using low-rent program and Housing Choice Voucher program funds for costs attributable to the COCC. In addition, regulations at 24 CFR 982.158 require the Authority to maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, including maintaining interfund accounts when program funds are used on a short-term basis for other purposes, in a manner that permits a speedy and effective audit. However, Authority records for the COCC from October 2014 through January 2015 showed that the COCC incurred monthly deficits between \$45,000 and \$65,000. Additionally, on May 22, 2014, Authority officials withdrew \$1 million in low-rent program funds and \$750,000 in Housing Choice Voucher program reserve funds to pay past due bills, some of which Authority officials said were expenses that should have been paid by COCC funds. However, the Authority's records did not allow us to determine the amount of Federal funds used to pay COCC expenses.

Authority officials said that they did not always know the amount of each program's funds used for COCC expenses because interfund transactions were not reconciled or closed regularly. In addition, HUD's 2015 independent assessment concluded that Authority officials had neither reconciled bank accounts nor established a viable cost allocation system. We attributed these conditions to the Authority officials' failure to properly implement HUD's asset management

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<sup>3</sup> Supplement to HUD Handbook 7475.1, REV, CHG-1, Financial Management Handbook, page 44, table 7.1

model and establish adequate monitoring controls to ensure that COCC expenses did not exceed income. As a result, Authority officials could not document how much of the \$1.75 million was used for allowable costs.

### **Professional Services Contracts Not Properly Procured and Administered**

Authority officials did not comply with Federal procurement regulations when they spent \$488,150 in Federal funds for general legal and public relations services.

While Authority officials properly used the competitive procurement method to procure legal services in October 2012, for which \$216,142<sup>4</sup> in Federal funds was disbursed, the procurement files lacked evidence that they performed the required independent cost estimate, cost analysis, and narrative explaining the merits of each qualified proposal as required.<sup>5</sup> Rather, the files documented that the incumbent and two other firms that bid on the contract were all qualified. However, the proposed billing rates were different, and although the contract was awarded to the incumbent firm, an evaluation report was not prepared as required<sup>6</sup> to document the rationale for the award.

The file for a public relations contract, for which \$243,008 was paid with Federal funds, also lacked evidence that the required cost estimate, cost analysis, and narrative evaluation report were prepared as required. Officials also later awarded this firm a contract modification for \$29,000 to conduct additional work to develop a new Web site, which was outside the scope of the initial contract and should have been bid separately. The contractor delivered an incomplete and improperly functioning Web site, requiring Authority officials to contract another vendor to repair it.

We attributed these conditions to a lack of controls over procurement. As a result of the deficiencies described above, officials lacked assurance that \$488,150 charged to Federal programs for public relations and legal services was paid to the best firm, with price and other factors considered as required. Thus, we considered these costs unsupported.

### **Inventory Records Were Not Accurate**

HUD Handbook 7510.1G requires that Authority officials maintain complete and accurate records for all financial management functions in a manner that provides an effective system of internal control to safeguard cash and other assets. However, Authority inventory records were not accurate. For example,

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<sup>4</sup> A total of \$949,248 was spent for legal services, of which \$216,142 was charged to Federal programs and \$733,106 was charged to the COCC, thus contributing to the COCC's deficit spending.

<sup>5</sup> Regulations at 24 CFR 85.36(f)(1) require that a cost or price analysis be performed for all procurement actions and a cost analysis be performed for all competitive procurements requiring professional services and all sole-source contracts. Regulations at 24 CFR 85.36(d)(3)(iv) also require that awards be given to the responsible firm having the proposal that is best for the program, with price and other factors considered. Further, regulations at 24 CFR 85.36(b)(9) require that records be maintained sufficient to detail the history of a procurement, which should include but not necessarily be limited to the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for the price.

<sup>6</sup> In addition, regulations at 24 CFR 85.36(b)(9) and (d)(3)(i-iv) require that an evaluation report be prepared with a narrative to describe each firm's significant strengths, weaknesses, and deficiencies.



- \$61,804, or 44 percent, of \$140,580 in inventory items sampled could not be located.
- Kitchen cabinets, which were obsolete and removed from inventory records, were maintained in the warehouse without being properly disposed of.

We attributed these deficiencies to Authority officials' failure to implement procedures to properly account for and safeguard inventory and dispose of inventory that was no longer in use. As a result, they could not provide assurance that items purchased for \$61,804 were used for their intended purpose.

Authority officials agreed that accountability for inventory needed to be strengthened and started doing so during our audit. For instance, they conducted an inventory of fixed assets and began establishing controls to ensure that purchased items were entered into inventory when received. Further, HUD's independent assessment identified this issue, and the Authority's recovery plan provided for corrective action, including completing an inventory of all assets.

#### **Actions Being Taken To Address Deficiencies**

On November 20, 2015, the Authority and HUD executed an action plan, describing the results of HUD's review and assessment of the Authority's performance, the measures that need to be implemented to improve the performance, and the desired outcomes to be achieved and establishing a timetable to achieve those outcomes. Some of the actions to be taken included

- Review all sections of its procurement policy and ensure that it complies with 24 CFR 85.36; Procurement Handbook for Public Housing Authorities, HUD Handbook 7460.8, REV-2, dated February 2007; and relevant State and local requirements.
- Train all board members and appropriate staff members in Federal and local procurement procedures.
- Establish local operating protocols to ensure that quality control reviews of procurement actions are conducted. These quality control reviews will include maintaining a completeness checklist in each procurement file.
- Establish and adopt an internal control policy that (1) maintains effective cost controls and accountability for grant funds received and an inventory of assets, equipment, and supplies; (2) requires receipts, invoices, or other adequate documentation before funds are disbursed; and (3) includes contracting protocols to comply with Federal regulations and maintain cost controls.
- Develop and implement a budget based upon actual costs that is within allocated funding for each program.
- Implement HUD's asset management model.

As of the date of this report, Authority officials were actively working with the HUD field office to address corrective action strategies to ensure that policies and procedures are enforced and Authority staff is trained.

### **Conclusion**

Authority officials lacked assurance that funds were always spent for eligible and properly supported costs, procurements were made at a reasonable cost, and inventory was accurately accounted for. We attributed this condition to weaknesses in the maintenance of accounting and inventory records and Authority officials' unfamiliarity with HUD's asset management and Federal procurement regulations.

### **Recommendations**

We recommend that the Hartford Office of Public Housing's program center coordinator require Authority officials to

- 1A. Repay the program from non-Federal funds the \$444,876 disbursed for Capital Fund program operating costs that exceeded the allowable amount.
- 1B. Strengthen controls over Capital Fund program funds to ensure that operating costs do not exceed allowable limits.
- 1C. Repay the programs from non-Federal funds the \$97,330 spent for the unallowable costs of scanning and storing records, accounting and financial software licenses, and iPads.
- 1D. Strengthen controls over disbursements to ensure that costs are charged in accordance with HUD's asset management model.
- 1E. Provide adequate support that \$5,573,214 (\$866,235 in Capital Fund program and \$4,706,979 in American Recovery and Reinvestment Act funds) was spent for eligible costs. Any amounts that cannot be supported should be repaid to the program from non-Federal funds.
- 1F. Provide support for the proper allocation of the \$650,990 in information technology costs charged to the Capital Fund program. Any amounts that cannot be supported should be repaid from non-Federal funds.
- 1G. Provide documentation to support that \$750,000 in Housing Choice Voucher and \$1,000,000 in low-rent program reserve funds were used for eligible Housing Choice Voucher and low-rent program costs. Any amount determined to be unsupported should be repaid from non-Federal funds.
- 1H. Establish controls to ensure that Federal funds are not used to make loans to pay COCC costs.

- 1I. Establish and implement procedures to properly account for interfund transactions, including regularly reconciling and repaying any amounts that are improperly accounted for.
- 1J. Provide documentation for the \$61,804 in unaccounted for inventory. If the items cannot be accounted for, repayment should be made to the Authority's low-rent program from non-Federal funds.
- 1K. Provide support showing that the contracts for which \$488,150 (\$216,142 and \$272,008 for legal services and public relations services, respectively) was paid were procured at the most competitive and best price and the costs paid were necessary and reasonable. Any unnecessary or unreasonable costs should be repaid from non-Federal funds to the program(s) that paid the costs.
- 1L. Ensure that controls over inventory and procurement are strengthened according to the corrective action plan, particularly to ensure that items are added to inventory when purchased and removed from inventory when obsolete or no longer in use, cost estimates and analyses are performed for procurements, evaluation reports are completed to support the rationale for contract awards, and the history of procurements is maintained.

# Scope and Methodology

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We performed our onsite audit work at the Authority's administrative office located at 150 Highland Avenue, Bridgeport, CT, from April 2014 through June 2015. Our audit generally covered the period October 1, 2010, through September 30, 2013, and was extended as necessary.<sup>7</sup> We used computer-processed data and verified the data by reviewing hardcopy supporting documentation or other data sources. We found the data to be adequate for our purposes.

To accomplish our objective, we

- Reviewed regulations at 24 CFR Part 990, Changes in Financial Management and Reporting Requirements for Public Housing Agencies Under the New Operating Fund Rule; 24 CFR 85.36, Federal Procurement Standards; and 2 CFR Part 225, appendix A.
- Obtained an understanding of the Authority's financial, procurement, and inventory management processes and evaluated controls to identify potential weaknesses related to our audit objective.
- Interviewed key Authority personnel and employee complainants to assess the validity of complaints made about Authority operations related to our objective during the course of our work.
- Reviewed 100 percent of the Authority's Capital Fund program expenditures of more than \$15.2 million in fiscal years 2008 through 2012 and 100 percent of American Recovery and Reinvestment Act grant expenditures of more than \$9.7 million recorded in the Authority's books and records as of May 9, 2014, to determine whether the funds were used for eligible purposes and were adequately supported.
- Selected a sample of 50 of 627 invoices, representing \$130,389 of the \$624,000 in purchases during fiscal years 2012 through 2014, and 10 boilers valued at \$10,647 to determine whether the items were in inventory and could be physically located. Items were selected due to reports of missing inventory items. We chose a nonrepresentative sample instead of a 100 percent selection because we knew enough about our population to allow us to select a relatively small number of items of interest. The 627 invoices totaling \$624,115 were from 5 vendors. The results cannot be projected.
- Selected a sample of 11 items valued at \$6,327 from a total population valued at more

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<sup>7</sup> October 15, 2008, was the first expenditure for the Authority's 2008 Capital Fund grant so the audit period was expanded accordingly for the review of the Authority's Capital Fund program, and August 20, 2014, was that last date payables for legal services were entered on the general ledger during our fieldwork. Also, we expanded the audit period for the review of legal services to include the 2010 procurement.

than \$355,000 purchased between December 1, 2013, and September 30, 2014, to determine whether they could be physically located. Items were selected because they were considered to not be necessary to maintain public housing units and could be easily stolen. We selected a nonrepresentative sample instead of a 100 percent selection or representative selection because we were alerted to the possibility that these types of items might be missing and wanted to select a small number of high-risk items that were not consistent with maintaining public housing. The universe was 4,485 purchases for a total dollar value of \$355,005. We selected 11 purchases with a total dollar value of \$6,327. The results cannot be projected.

- Reviewed procurement files for legal services contracts procured in 2010, 2012, and 2014 and a public relations services contract procured in 2011 to determine whether contracts were procured properly and the cost was reasonable.

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

# Internal Controls

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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.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- 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 Deficiencies**

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

- Authority officials did not have adequate controls to ensure the reliability of financial

information when they lacked adequate support for disbursements and did not accurately allocate costs among programs (finding).

- Authority officials did not have adequate controls over compliance with laws and regulations when they did not maintain adequate accounting, inventory, and procurement records (finding).
- Authority officials did not have adequate controls over safeguarding of resources when they did not maintain adequate inventory records (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>
1A	\$ 444,876	
1C	97,330	
1E		\$5,573,214
1F		650,990
1G		1,750,000
1J		61,804
1K		488,150
<b>Total</b>	<b>542,206</b>	<b>8,524,158</b>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.



# Appendix B

## Auditee Comments and OIG's Evaluation


### Ref to OIG Evaluation

### Auditee Comments

Comment 1

Comment 2

Comment 3



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

May 19, 2016

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Mr. Jeye,

Thank you for taking the time to meet with us to present your audit findings. After reviewing the audit and the details of each finding, Park City Communities have the following comments:

**Recommendation 1A:**

Security and Patrol costs of \$444,876 were charged to the "Management Improvement" line item in Capital Fund Grants 2009, 2010, and 2012. Before the 2013 Capital Fund Program rule, security costs were an eligible expense under the "Management Improvement" line item. Due to this, these costs should not be re-assigned to the "Operations" line team which will keep the total allocation of the "Operations" line item to 10%; not raising it above the 20% threshold.

**Recommendation 1B:**

Park City Communities has already taken the required steps to strengthen the controls over the Capital Fund Program by working with HUD through the Recovery Agreement. PCC has developed and implemented Capital Fund Management Procedures for planning, oversight, controls, and reporting of the program. Additional internal controls are found in the Park City Communities Financial Procedure Guidebook. PCC has trained all staff on these policies and procedures.

**Recommendation 1C:**

The \$97,330 is comprised of three parts:

- 1) \$78,588 is related to a single procurement for scanning Agency documents. PCC looked at the checks that paid these invoices and confirmed that no Capital Funds were used. The cost was allocated between the Central Office Cost Center and the Housing Choice Voucher Program based on the volume of documents scanned for the

BOARD OF COMMISSIONERS: • Dulce Nieves • Rev. Dr. Sulton Stack, Jr. • Janet Ortiz • Hadassah Nightingale • Richard DeJesus

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

two departments. HUD Regulation 24 CFR Part 990 states that the "Storage of HCV records and adherence to federal and or state records retention requirements." The scope of this procurement was to scan the documents where as the storage of the documents was a separate billable item that COCC paid fully.

- 2) \$11,000 was charged to Capital Fund Grant 2009 and according to Capital Fund Rule 24 CFR 905.200 Subpart B regarding eligible expenses under the "management improvement" line item, "improvements to management, financial, and accounting control systems of the PHA" is an eligible expense. PCC will revisit this expense and apply the correct allocation method so the Public Housing Programs will only pay their portion of this cost. The remainder will be billed to the Central Office Cost Center and Housing Choice Voucher Program.

Based on the Capital Fund Rule, the Housing Authority will work with HUD to determine if funds will need to be paid to the Treasury or Capital Fund Program.

Comment 2

- 3) Park City Communities has reviewed these expenses in the Capital Fund Grant 2010 and 2011. PCC will reimburse the \$7,742 for the purchase of iPads.

Comment 2

#### Recommendation 1D:

Park City Communities has already taken the required steps to strengthen the controls over disbursements by working with HUD through the Recovery Agreement. PCC has developed and implemented Financial Policies & Procedures Guidebook, which was approved by the Board of Commissioners in January of 2015.

Comment 4

#### Recommendation 1E:

The \$4,706,979 in the American Recovery and Reinvestment Act funds was thoroughly monitored and supervised through the Hartford HUD Field Office from 2009-2012. The Recovery Act Management and Performance System required comprehensive quarterly reports that were sent to HUD Washington that justified all expenses associated with the programs. All required supporting documentation can be produced to justify all expenditures and show that they conform with all HUD Rules and Regulations.

All required supporting documentation for the \$866,235 of eligible costs can be produced to justify all expenditures and show that they conform with all HUD Rules and Regulations.

#### Recommendation 1F:

Park City Communities is reviewing the backup documentation and allocation method used for this finding found in Capital Fund Grants 2008-2011.

BOARD OF COMMISSIONERS: • Dulce Nieves • Shanté T. Hanks • Rev. Dr. Salton Stack, Jr. • Janet Ortiz • Hadassah Nightingale

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 5

#### Recommendation 1G:

Park City Communities formally requests the supporting documentation used for this finding from the Office of Inspector General because there were no draw downs from reserves during the time period of October 2014 through January 2015 as indicated.

Park City Communities was labeled troubled in FY2013 and FY2014 due to failure to submit the unaudited and audited financials. The information that was provided to the Office of Inspector General could only be speculation until the audited financials have been accepted and approved by HUD. The Office of Inspector General is correct, PCC is required to maintain accurate financial records, ensure appropriate internal controls are adhered to, and that Generally Accepted Accounting Principles are followed.

As of FY2015, PCC has made great gains in closing accounting books each month as well as reconciling general ledger accounts, including bank accounts. Through the assistance of Nan McKay, bank accounts are being reconciled every month, and we have not discovered any discrepancies in the bank reconciliations that would reflect \$1.750 million in transfers to COCC to cover expenses.

The new administration that entered PCC in FY2015, in accordance with the HUD Corrective Action Plan, established policies and procedures and trained all staff on the same. Due to the efforts of a new Director of Finance, PCC has since finalized the submission of the audited financials for FY2013 and FY2014 and can now verify the allegations are inaccurate.

The financials during the time period of this audit used incorrect allocation methods that made the Central Office Cost Center (COCC) appear to be running a severe deficit. After conducting the federal single audit, PCC identified expenses that were charged to the COCC that should have been allocated across the Public Housing Programs.

#### Recommendation 1H:

The Public Housing Programs have not loaned funds to the Central Office Cost Center (COCC). Previous management charged expenses to the COCC that should have been incurred by the Public Housing Program as detailed in asset based management rules.

Internal controls to prevent this have been established in the Financial Policy and Procedure Guidebook.

#### Recommendation 1I:

The issue of properly accounting for interfund transactions, specifically reconciling and settling the accounts every month has been mentioned in CohnReznick's Federal Single Audit for the fiscal year end 2014. We have taken steps to properly account for the interfunds, which includes bringing in consultants from Nan McKay to help work through this issue. We continue to make progress and we believe that for the fiscal year end audit for 2016 this will no longer be an issue.

BOARD OF COMMISSIONERS: • Dulce Nieves • James M. Brown • Rev. Dr. Salton Stack, Jr. • Shanté T. Hanks • Janet Ortiz

Comment 6

Comment 2

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 7

**Recommendation IJ:**

Park City Communities formally requests the supporting documentation used for this finding from the Office of Inspector General so we can determine what the \$61,804 is comprised of.

Comment 2

**Recommendation IK:**

Park City Communities will review the backup documentation and contracts from 2012 mentioned in this finding.

Comment 2

**Recommendation IL:**

Park City Communities is actively working with HUD in the Recovery Agreement to implement policy and procedure regarding inventory controls.

Comment 8

Park City Communities understands and respects the importance of maintaining internal controls, policies, and procedures that adequately support the mission of our programs. PCC has implemented many corrective action strategies to ensure that policies and procedures are enforced and staff is trained. After our FY2015 audited financials have been submitted, PCC is confident we will no longer be labeled as a "troubled" Agency.

The extraordinary achievements that have been accomplished in the past eighteen months could not have been possible without the hard work of our employees, HUD and our Board of Commissioners.

Park City Communities appreciates the professionalism of the Office Inspector General staff and allowing PCC to comment on this audit.

Sincerely,

  
George Lee Byers  
Executive Director

BOARD OF COMMISSIONERS: • Dulce Nieves • Shanté T. Hanks • Rev. Dr. Sulton Stack, Jr. • Janet Ortiz • Hadassah Nightingale

## OIG Evaluation of Auditee Comments

- Comment 1 Authority officials maintain that before the 2013 Capital Fund program rule, security (patrol) costs were an eligible Capital Fund program expense under the “Management Improvement” line item. However, 24 CFR 905.10(k)(ix) in 2010 permitted “Capital expenditures to improve the security and safety of residents,” and regulations at 24 CFR 905.314(1) allow certain operating costs to be charged to the Capital Fund program, but these costs are limited to 20 percent of the grant. We maintain that security patrols are not a capital expense but, rather, an operating expense and Authority officials had already charged 20 percent of the grant for operating costs. Therefore, the costs of the security (patrol) costs are not eligible expenses.
- Comment 2 Authority officials’ reported actions are responsive to the recommendation and will need to be verified by HUD during the audit resolution process.
- Comment 3 Authority officials stated that the \$78,588 was for scanning documents and was paid from COCC and Housing Choice Voucher program funds. However, information provided during the audit showed that these expenses were allocated using the “701” account, which automatically allocated the costs to the asset management projects and the Housing Choice Voucher program based on a formula entered into Accountmate, the Authority’s automated accounting system. We agree that capital funds were not used for this item and clarified the report accordingly. However, since Authority officials did not provide additional documentation to show that these costs were charged to the COCC, the costs will remain as ineligible.
- Comment 4 Authority officials stated that documentation to support all questioned expenditures can be produced. However, such documentation was not made available during the audit; therefore, supporting documentation will have to be provided to HUD during the audit resolution process.
- Comment 5 The report has been corrected to note that the \$1,750,000 was withdrawn in May 2014, not after October 2014. Authority records showed that the amount was transferred from the reserve investment account via a wire transfer on May 22, 2014, and was reported in the COCC general ledger as an interfund due from the COCC to the Housing Choice Voucher program and various asset management projects. Authority officials stated that a single audit that was conducted disclosed that an improper cost allocation was used, which overstated expenses charged to the COCC. During the audit resolution process, Authority officials will need to show that these funds were properly used for asset management project and Housing Choice Voucher program expenses and not COCC expenses.
- Comment 6 Authority officials stated that Federal funds were not used to make loans to the

COCC. To support this statement, supporting documentation will have to be provided to HUD during the audit resolution process.

Comment 7 We provided the details for the items that make up the \$61,804 to Authority officials during the audit and will provide them again and to HUD for use during the audit resolution process.

Comment 8 We acknowledge the efforts and corrective actions made by Authority officials during the last 18 months and have added information concerning these efforts and corrective actions in the report.