



**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, Massachusetts 02222-1092

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

**MEMORANDUM NO:**  
2010-BO-1804

January 27, 2010

**MEMORANDUM FOR:** Gary Reisine, Director Community Planning and Development, 1ED

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

**SUBJECT:** The City of Meriden, CT, Had Sufficient Capacity To Effectively Administer Its Neighborhood Stabilization Program

### **INTRODUCTION**

In accordance with our goal to review and ensure the proper administration of Neighborhood Stabilization Program (NSP) funds provided under the Housing and Economic Recovery Act of 2008 (HERA), we conducted a capacity review of the City of Meriden's (City) operations. The City has responsibility for administering the State's NSP. Our objective was to determine whether the City had the necessary capacity to effectively administer the State's NSP funds provided through HERA.

We provided a draft report to the City on January 14, 2010, and the City provided written comments on January 26, 2010, which are included in appendix A. The city agreed to correct the conditions raised by the review.

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 review. If you or your staff has any questions, please contact Michael Motulski, Assistant Regional Inspector General for Audit, at 617-994-8380.

### **METHODOLOGY AND SCOPE**

Our review of the City's operations was limited to gaining an understanding of internal controls over the administration of NSP funds and some limited testing of selected controls. To meet our objective, we reviewed NSP criteria, documentation, and funding agreements. We interviewed City

management and staff and reviewed City documentation such as policies and procedures, organizational charts, and salary allocations. Our review of this documentation was limited to our stated objective and should not be considered a detailed analysis of City's overall internal controls or operations.

We reviewed the applicable files for each of the properties acquired with NSP funds and performed a site visit to each property. We also obtained information from the local HUD Office of Community Planning and Development to assist us. We performed our audit fieldwork from October through December 2009 at City and local HUD office. For this report, we did not conduct our work in accordance with generally accepted government auditing standards; however, this fact had no effect on the significance of the conditions identified in this report. We designed the review to be proactive and focus on prevention; thus, we significantly reduced the scope to the items and conditions discussed in this report.

## **BACKGROUND**

HERA (Public Law 110-289), signed into law on July 30, 2008, provides \$3.9 billion in Community Development Block Grants to States and localities to buy foreclosed-upon homes standing empty, rehabilitate foreclosed-upon properties, and stabilize the housing market. The program is known as the Neighborhood Stabilization Program (also known as NSP1). Connecticut's share of the Federal program is more than \$25 million and is administered by the State of Connecticut, Department of Economic and Community Development (Department). The Department allocated more than \$1.7 million to the City under this program. Over the past 2 years, the City has received approximately \$900,000 in HUD funding per year and received nearly triple that amount in fiscal year 2010, with the addition of NSP funding. However, it is not expected to receive any additional NSP funding because did not apply for funding under the American Recovery and Reinvestment Act of 2009. Under NSP, entities are required to obligate funds in an expedited manner. They are required to obligate all funding within 18 months.

The City plans to use its NSP funds to acquire, rehabilitate, and resell an estimated 15 single-family homes (one-to-four unit homes) that have been foreclosed upon in targeted areas in Meriden, CT. It also plans to demolish an estimated five vacant, blighted properties targeted for demolition due to their detrimental impact on the neighborhood. The City works with two nonprofit partners to implement its NSP: Mutual Housing Association of South Central Connecticut, d/b/a NeighborWorks New Horizons, and Corporation for Independent Living.

## **RESULTS OF REVIEW**

We found no evidence indicating that the City lacked the capacity to administer its NSP funding effectively. The City had written policies and procedures, a staffing plan including adequate segregation of duties, and a plan for using NSP funds. Specially, the City's management, financial, and procurement controls were generally adequate to ensure that (1) proper NSP expenditures would occur within the timeframes for using these funds and (2) properties acquired were eligible, acquired at a discount, within the City's targeted area, and properly procured. We reviewed the following areas in making our determination of the City's ability to administer its NSP funds:

**Capacity:** The City will oversee all NSP activities. It had assigned personnel to work directly with its NSP partners and to provide oversight of the NSP project development, implementation, and monitoring.

**Accountability and reporting:** The City had incorporated the necessary accounting procedures within its systems to provide adequate assurances that controls were in place to carry out NSP-related activities. The NSP accounting transactions reviewed were adequately supported, eligible, and consistent with the activities outlined in the City’s NSP local action plan. In addition, there were no material findings, concerns, or internal control weaknesses noted in the City’s audited financial statements, relating to HUD-funded programs.

**Contract and procurement:** The City’s contract and procurement systems were adequate. While the City relies on the procurement and contracting performed by its partners for the program, it had prequalified all home improvement contractors that the partners must use and approves all rehabilitation contracts.

**Data and computer systems:** The City had no major control weaknesses relating to NSP. It uses a quarterly reporting system designed by the Department to report on the progress and funding of the program. In turn, the Department uses the information in the quarterly report to report progress to HUD through the Disaster Recovery Grant Reporting System. We verified that the information submitted by the City was substantially accurate.

*The City Will Not Complete All Planned Activities*

Despite the City’s capacity to administer its NSP funds, the City will not be able to meet its planned goal of completing the acquisition and rehabilitation of 15 single-family properties. As of the date of this report, the City had acquired seven properties for rehabilitation and one property for demolition. One of the seven properties acquired for rehabilitation was under a rehabilitation contract. The remaining properties were in the bid design phase. The City had not sold or demolished any properties. However, the work completed was notable as shown in the example of the progress of the work underway at 78 Franklin Street.



Figure 1 - New exterior siding



Figure 2 - New heating equipment

The City will not be able to complete the 15 projects in its action plan, even with the additional funding leveraged from other sources, because the total rehabilitation costs are much higher than expected. Realistic acquisition and rehabilitation costs will exceed \$300,000 per property. The original estimate was closer to \$125,000.

According to the contract agreement between the City and Department, failure to meet any of the agreed-upon performance standards may result in the recapture of funds by the Department. The City should discuss the expected results with the Department and obtain an approved amendment to its local action plan.

### **RECOMMENDATIONS**

We recommend that the HUD Hartford, CT, Director of Community Planning and Development require the City to

- 1A. Obtain an approved amendment to its NSP local action plan from the Department to reduce the number properties acquired, rehabilitated, and resold.

Appendix A

AUDITEE COMMENTS



**City of Meriden, Connecticut**

**OFFICE OF THE CITY MANAGER**

142 East Main Street, City Hall

Meriden, CT 06450-5667

Telephone (203) 630-4123 • Fax (203) 630-4274

LAWRENCE J. KENDZIOR  
CITY MANAGER

January 22, 2010

John A. Dvorak  
Regional Inspector General for Audit  
Boston Region  
Thomas P. O'Neill Jr. Federal Building  
10 Causeway Street  
Boston, MA 02222-1092

SUBJECT: Response to Audit Report Number: 2010-BO-1804  
Date Audit Report Issued: 1-13-2010  
Taxpayer Identification Number: 066001893  
Grant Number: Neighborhood Stabilization Program (State Agreement  
NS0908001)

**Dear Mr. Dvorak:**

We have reviewed the subject audit report and have provided the attached response. If you have any questions, please feel free to contact me or Juliet Burdelski, Grants Administrator at 203-630 4105.

Sincerely,

Lawrence J. Kendzior  
City Manager

CC: Juliet Burdelski, Grants Administrator  
Peter Miller, NSP Specialist  
Att.

2010 JAN 26 AM 10:50  
OFFICE OF THE CITY MANAGER  
CITY OF MERIDEN, CONNECTICUT

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Date Audit Report Issued: 1-13-2010  
Taxpayer Identification Number: 066001893  
Grant Number: Neighborhood Stabilization Program (State Agreement  
NS0908001)

Recommendation Number: 1A


Planned Action in Response to Recommendation: The City will obtain an approved amendment to its NSP Local Action Plan from the State of Connecticut Department of Economic and Community Development to reduce the number of properties acquired, rehabilitated and resold if required to do so by the Department and by the US Department of Housing and Urban Development.

Estimated Date of Completion. As required by the State of Connecticut Department of Economic and Community Development.

Type of Documentation: Amendment document and letter from Department stating that the Amendment has been accepted.

No costs are associated with these actions.

Signed,

 1-22-2010  
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Lawrence J. Kendzior                      Date  
City Manager