



U.S. Department of Housing and Urban Development
New York Office of Public Housing
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https://www.hud.gov/states/new_york

December 21, 2022

By email: cstrome@newrochelleny.com

Charles B. Strome III
City Manager
515 North Avenue
New Rochelle, NY 10801

Dear Mr. Strome:

The New Rochelle Municipal Housing Authority (NRMHA) operates under an Annual Contributions Contract (ACC) with the United States Department of Housing and Urban Development (HUD). In exchange for funding from HUD, the NRMHA agrees to operate in accordance with the terms of the ACC, its adopted policies and federal, state, and local laws governing the NRMHA's operations. To achieve this mission, the NRMHA requires a Board of Commissioners, to govern the agency, that are ready, willing, able, and ethical.

On December 8, 2014, a Recovery Agreement was executed between the NRMHA, the City of New Rochelle and HUD due to the NRMHA's status as a Troubled Agency. This Agreement and local law require that the City Manager appoint and maintain a sufficient number of Board Members that the City Manager certifies are qualified to lead the Agency. This Agreement further states that:

"The City of New Rochelle, through its Appointing Authority, acknowledges the importance of effective governance as part of the recovery and sustainability of the New Rochelle Housing Authority. As a signatory of this Agreement, the City of New Rochelle commits to oversee and monitor its duly appointed agents, the appointees to the New Rochelle Housing Authority Governing Board, in the discharge of their duties. Upon the discovery of any failure of the New Rochelle Housing Authority Board to discharge its duties under this Agreement, City of New Rochelle will take all necessary steps to correct the Board's actions or omissions and ensure compliance with the terms of this Agreement."

HUD is charged with oversight and monitoring of NRMHA operations; therefore, we are notifying you that the actions and omissions of the current NRMHA Board Members, give evidence that they do not meet the requirements needed to govern and oversee the NRMHA. The reasons for our determination are the following:

1) The NRMHA Board failed to establish a proper internal control environment.

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. The NRMHA board is responsible for establishing a control environment that sets the tone of an organization. This “tone at the top” affects the integrity and ethics of the organization as a whole. Effective internal control is essential to provide reasonable assurance about the achievement of the organization’s mission, goals, and objectives and to reduce the risk of fraud, waste, and abuse.

However, the NRMHA board failed to establish a control environment in achieving the Authority’s mission. Specifically, the NRMHA’s fiscal controls and accounting procedures were inadequate to ensure that it maintained complete and accurate records of its financial transactions that has resulted in continued audit findings, audit flags and overall poor financial conditions.

a) The FY21 IPA report (submitted by the NRMHA on September 27, 2022) identified substantial issues with the fiscal management of the NRMHA. The auditors noted the following material weaknesses:

- i) **CONDITION:** The Authority did not develop and adopt an operating budget for fiscal year 2021. For the year ended June 30, 2021, the Authority incurred significant operating losses and accumulated substantial liabilities. Excluding depreciation, the non-cash change in pension and OPEB liabilities, and the utilization of restricted reserves, the Authority incurred an operating loss of \$938,347 for the year while accumulating payables to vendors of \$1,308,045.

The Authority’s Central Office Cost Center (COCC), which accounts for 73% of the Authority’s liabilities, reflected a current ratio of .84 at year end. The COCC is unable to meet these obligations with available resources and is restricted by law from accessing the resources of the Authority’s federal programs.

Furthermore, the Authority is lacking control activities to ensure that transactions are recorded in a timely manner, which has prevented the timely completion of cash reconciliation procedures and financial statement preparation at and subsequent to the fiscal year end.

CAUSE: Management has not taken sufficient action to address the Authority’s operating deficits.

EFFECT: The Authority cannot ensure that its resources are managed in a manner that safeguards the long-term financial stability of the Authority.

- ii) **CONDITION:** On June 30, 2021, the Housing Choice Voucher Program’s financial statements reflected a net interprogram receivable of \$353,514, representing approximately seven months of the program’s average monthly operating expenses. The programs that received these funds did not have sufficient cash reserves on June 30, 2021, to repay the Housing Choice Voucher Program.

CAUSE: The Authority was not effectively monitoring and managing inter-program balances in order to ensure that program funds were not used for non-program purposes.

EFFECT: The financial position of the Housing Choice Voucher Program is at least temporarily impaired by the use of program funds for non-program purposes.

- b) The Unaudited Financial Data Schedule (FDS) submitted by the NRMHA on September 15, 2022, contained fourteen audit flags. Audit flags are intended to identify potential review issues that could possibly lead to a Rejection or Conditional Acceptance. In addition, on October 14, 2022, HUD's Real Estate Assessment Center (REAC) reviewed the same FDS submission and identified the following:
- i) New Rochelle Housing Authority reported an Asset Management Fee Expense on FDS Line 92000 in one or more of its projects. The Asset Management Fee for the project(s) shown below is either in excess of the \$10.00 x units under ACC x 12 or the project does not have excess cash (FDS Line 11270) from the prior year when current year inter-project excess cash transfer out are considered to support the current year asset management fee expense.
 - ii) The New Rochelle Housing Authority has Operating Transfers and or Equity Transfers from Section 8 to non-Section 8 programs contained on the Financial Data Schedule (FDS). The transfer of Section 8 funds out of the Section 8 program is a potential noncompliance issue.
 - iii) The New Rochelle Housing Authority reported an Inter-program Due-From on FDS Line-Item Number 144 under the Low Rent or Housing Choice Vouchers (HCV) program. Inter-program Due-From activity in the Low Rent or HCV program may be a potential noncompliance issue.”
- 2) NRMHA Board members have not taken significant steps to oversee, guide and track implementation of Action Plan "Measures" for items that remain open since the Recovery Agreement was signed in 2014.
- a) The Action Plan Results and Determinations in the area of “Financial Management” noted the following:
- i) Internal financial controls are weak.
 - ii) Financial reporting and recordkeeping are inadequate.
 - iii) Budget controls are weak as evidenced by expenses over budget, history of comingled funds (intergovernmental payables), and an annual budget that includes questionable financial data. The agency budget does not reflect a sustainable plan for operation of the agency's public housing inventory.

These findings remain open as evidenced above in (1a) and (1b). HUD agrees with the IPA audit findings that the NRMHA has not taken sufficient action to address the Authority's operating deficits resulting in concerns about the long-term financial stability of the Authority.

- b) The Action Plan Results and Determinations in the area of “Financial Management” noted the following:
 - i) All AMP budgets show operating surpluses, but Central Office Cost Center (COCC) remains in budget deficit with negative assets.

This finding remains open as evidenced above in (1a)(i).

- 3) The NRMHA has recently achieved an improved, "Standard Performer" score of 82 under the Public Housing Assessment System (PHAS) for the fiscal year ending June 30, 2022. We recognize the improvements in the PASS (Physical Assessment Subsystem) score of 28/40 (70%), however, we want to highlight the following related to the FASS (Financial Assessment Subsystem) score of 25/25 (100%).
 - a) FASS is determined by data reported to HUD by the NRMHA in the Financial Data Schedule (FDS). FASS measures the financial condition of projects. It does **not** score the COCC, the PHA's operation of a Section 8 voucher program, any other PHA program, or a PHA's business activities. Therefore, as evidenced above in (1)(a)(i), the NRMHA remains in an overall negative financial position (when the COCC is accounted for) and continues to face significant challenges. Specifically, the FY21 IPA audit identified an Operating Loss of (\$1,807,979) and an OPEB (Other Post-Employment Benefits) liability of (\$5,681,775) for the year ended in June 30,2021.
 - b) The NRMHA will need to make concerted efforts to meet the remaining milestones in the Recovery Agreement Action Plan and demonstrate continued forward progress to avoid falling back into "Troubled Performer" status. This includes steps to increase savings and reduce operating costs in order to improve its overall financial position. This progress will also be necessary in order to complete any additional repositioning transactions that NRMHA is pursuing under the HUD Rental Assistance Demonstration (RAD) program or other similar programs.
- 4) NRMHA Board Members lack fundamental knowledge of HUD programs and how these programs work in concert with each other. This has resulted in violations of fair housing laws.
 - a) On September 12, 2021, HUD’s Office of Fair Housing and Equal Opportunity issued a report of their compliance reviews of the NRMHA under Title VI of the Civil Rights Act of 1964 (Title VI) and Section 504 of the Rehabilitation Act of 1973 (“Section 504”). The purpose of the review was to determine whether the NRMHA’s administration of its low-income public housing and Housing Choice Voucher programs are in compliance with the nondiscrimination requirements of Title VI and Section 504. The report identified the following findings which has resulted in the NRMHA entering into a Voluntary Compliance Agreement.
 - i) The NRMHA failed to implement its Limited English Proficiency policies as described in its Administrative Plan and Language Assistance Plan.
 - ii) NRMHA was found to be in noncompliance with 24 CFR § 8.24 which requires

- recipients to operate each existing housing program or activity so that the program, when viewed in its entirety, is readily accessible to and usable by individuals with disabilities.
- iii) NRMHA is in noncompliance with 24 CFR § 8.27 as it has failed to adopt suitable means to ensure persons with disabilities are made aware of the availability of accessible units or to maximize use of accessible units by individuals needing the features of these units.
 - iv) NRMHA is in noncompliance with 24 CFR 8.26, which requires recipients to distribute accessible dwelling units throughout projects and sites and make such units available in varying ranges of sizes and amenities to provide housing choices for persons with disabilities.
 - v) NRMHA is in noncompliance with 24 CFR §§ 8.20, 8.23 and 8.24 as the Bracey development does not maintain a minimum 5% of the total number of public housing dwelling units that shall be made accessible for persons with mobility impairments and 2% of the units that shall be made accessible for persons with hearing or vision impairments.

In summary, the NRMHA Board has failed to ensure that the NRMHA meets the requirements of the Recovery Agreement within the prescribed timeframes. In light of this, as the funder and federal regulatory body of the NRMHA and as required by the Recovery Agreement, we are requesting that you review the appointments to the Board and make changes as necessary. In making any new appointments, we further request that you seek Board Members that are not only willing, able and ethical but who also possess the professional experience necessary to govern an Agency of this complexity and size.

Please also be advised, that the NRMHA's ongoing failure to comply with the Recovery Agreement and other HUD requirements may result in the referral of the NRMHA to HUD's Departmental Enforcement Center (DEC). The DEC may seek any and all available remedies, including, but not limited to, a limited denial of participation, and/or the suspension/debarment of responsible parties from participation in federal programs. The contracting-out of some or all of NRMA's administrative functions and operations, consolidation, receivership, or delivery of possession and control of NRMHA projects to HUD are also available.

If you have any questions or would like to discuss this issue further, please contact me at Luigi.DAncona@hud.gov. We look forward to our continued work with both the New Rochelle Municipal Housing Authority and the City of New Rochelle.

Sincerely,

Luigi D'Ancona
Director
Office of Public Housing