



Housing Authority of the City of Paterson Paterson, NJ

Housing Choice Voucher Program



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//SIGNED//

FROM: Edgar Moore
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SUBJECT: The Paterson Housing Authority, Paterson, NJ, Had Weaknesses in
Administration of its Housing Choice Voucher Program

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final audit report on our review of the Housing Authority of the City of Paterson, Paterson, NJ's Housing Choice Voucher Program.

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.



January 15, 2014

The Housing Authority of the City of Paterson, Paterson, NJ, Had Weaknesses in the Administration of its Housing Choice Voucher Program

Highlights

Audit Report 2014-NY-1001

What We Audited and Why

We audited the Housing Authority of the City of Paterson, Paterson, NJ's Housing Choice Voucher program in support of the Office of Inspector General's (OIG) goal to contribute to improving the U.S. Department of Housing and Urban Development's (HUD) execution of its fiscal responsibilities. We selected the Authority based on a risk assessment of authorities administered by the HUD Newark, NJ, field office that considered funding, HUD's 2012 risk score, and prior OIG audits. The audit objectives were to determine whether Authority officials implemented adequate controls to ensure that the program was administered in accordance with HUD regulations and its own administrative plan.

What We Recommend

We recommend that HUD instruct Authority officials to provide documentation to support that assisted units complied with housing quality standards, and strengthen controls over the unit inspection, tenant certification, port-in receivables collection, and procurement processes.

What We Found

The Authority lacked adequate controls to ensure that its program was administered in accordance with regulations. Specifically, documentation was lacking that assisted rental units were inspected annually, annual quality control inspections were performed, and some units did not comply with housing quality standards. As a result, housing assistance of almost \$3.8 million was paid for units without evidence that they complied with housing quality standards, and \$18,266 will be paid for units that officials recently made housing quality standards compliant.

Documentation was inadequate to support that rental subsidy amounts were accurately calculated, all tenants were eligible for subsidy, and applicants were properly selected from the waiting list. Consequently, \$184,867 in questionable housing assistance was disbursed, and HUD lacks assurance that tenants were properly selected from the waiting list.

Financial controls were not adequate to ensure that port-in receivables were collected, duplicate housing assistance payments were not made, and uncashed checks disbursed to landlords and tenants were adequately monitored. As a result, Authority officials failed to collect all receivables on behalf of port-in tenants, lacked assurance that housing assistance payments were not made for vacant units, and outstanding checks to landlords and tenants were cashed within a reasonable timeframe. In addition, Authority officials did not properly execute a contract or adequately monitor the status of the contractor's performance against the contract provisions. Consequently, the contractor has been paid in excess of the small procurement threshold.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Paterson is a governmental, public corporation created in 1941 under Federal and State housing laws as defined by New Jersey State statute¹ for the purpose of engaging in the development, acquisition, and administrative activities of the low-income housing program and other programs with similar objectives for low- and moderate-income families residing in Paterson, NJ, in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The Authority is governed by a seven-member board of commissioners, selected by the mayor, city council, and governor for a 4-year term. The board appoints an executive director, who manages the day-to-day operations of the Authority.

The Authority receives funding from HUD's low-rent housing, Housing Choice Voucher, Public Housing Capital Fund, and Family Self-Sufficiency programs. The Authority received approximately \$10.6 million and \$14.1 million in Housing Choice Voucher program funding and was authorized to administer 1,166 and 2,237² program units in fiscal years 2012 and 2013, respectively. The Authority also received \$2.5 million in 2013 to operate 1,490 low-rent housing units.

The audit objectives were to determine whether Authority officials implemented adequate administrative and financial controls to ensure that the Authority's Housing Choice Voucher program was administered in accordance with HUD regulations and its own administrative plan. Specifically, we evaluated controls over unit inspections, tenant selection and certification, housing assistance payment calculations, waiting list administration, procurements, and housing assistance payments and receipts.

¹ N.J.S.A. 4A:12A-1, et. Seq. the Housing Authority Act

² The Authority had been administering the City of Paterson's Housing Choice Voucher program under an intergovernmental memorandum of understanding since 2006 and was receiving the City's housing assistance payments and administrative fees directly from HUD. After we questioned this arrangement, HUD formally incorporated the City's 1,000 units into the Authority's annual contributions contract in January 2013.

RESULTS OF AUDIT

Finding 1: Authority Officials Lacked Assurance That Assisted Units Complied With HUD Housing Quality Standards

Authority officials lacked documentation to assure HUD that all program-assisted units complied with HUD housing quality standards. Specifically, the Authority's records disclosed that units were not inspected annually, documentation was lacking to support that annual quality control inspections were performed, and some units sampled did not comply with housing quality standards. We attributed these conditions to weaknesses in the Authority's unit inspection records and inadequate controls over the unit inspection process. As a result, housing assistance of almost \$3.8 million was paid for units without evidence that they had been inspected for compliance with housing quality standards and is therefore regarded as unsupported, and \$18,266 to be paid for units that officials recently made housing quality standards compliant will be put to good use. In addition, we considered \$122,977 of the Authority's administrative fee to be unsupported. Consequently, Authority officials could not assure HUD that the Authority's program units always complied with HUD's housing quality standards.

Unit Inspections Were Not Conducted Annually

The Authority's housing quality inspection log reported that 252, or 13.3 percent, of the average 1,889 units leased during the period July 2012 through June 2013 had not been inspected annually as required by regulations at 24 CFR (Code of Federal Regulations) 982.405(b) and HUD Guidebook 7420, chapter 10. Further, the log disclosed that some units had not been inspected since 2005. Therefore, Authority officials could not support that approximately \$3.8 million in housing assistance disbursed for these 252 units during the period July 2012 through June 2013³ was paid for units that complied with housing quality standards. As such, until controls over its inspection process are strengthened, Authority officials will pay approximately \$3.8 million in housing assistance in the next year without assurance that the funds will assist compliant units.

HUD monitoring reviews had also cited the Authority for weaknesses in its unit inspection process, resulting in a score of zero for its Section 8 Management Assessment Program (SEMAP)⁴ indicator 12 related to annual housing quality

³ While the Authority's records indicated that inspections had not been performed in prior years as well, the determination of an unsupported amount and associated administrative fee were limited to the timeframe noted because the Authority's records did not provide a historical accounting of inspections conducted for individual units yearly.

⁴ SEMAP measures the performance of the public housing authorities that administer the Housing Choice Voucher program in 14 key areas. SEMAP helps HUD target monitoring and assistance to authority programs that need the most improvement.

standards inspections for fiscal years 2010 through 2012. In its responses to HUD's reviews, Authority officials had promised to take corrective action for conducting and documenting the Authority's inspection process. Authority officials said that inspections were performed but were not always recorded, and acknowledged that inspections may not have always been performed as required; noting that one of the Authority's two inspectors was on extended leave in program year 2012. Regulations at 24 CFR 982.152(d) permit HUD to reduce or offset any program administrative fees paid to a public housing authority that fails to perform its administrative responsibilities adequately. Therefore, we considered \$122,977⁵ of the Authority's administrative fee associated with these units to be unsupported.

Authority officials recently took action to conduct inspections in a timelier manner and executed a contract in May 2013 with an independent inspector to assist the Authority's two inspectors in conducting up to 500 unit inspections to become current with required annual inspections. As of July 2013, the inspector had completed more than 600 inspections. However, Authority officials will lack assurance that their two inspectors would be able to inspect all units annually as required when the inspector's contract is terminated.

Documentation That Annual and Quality Control Inspections Were Conducted Was Inadequate

Authority officials were unable to provide a historical inspection log to document that all units were inspected annually as required by HUD Guidebook 7420. The inspection log documented the most recent inspection completed for current units only. Since the Authority's records did not provide a historical log, we were unable to determine whether all units were inspected annually in prior years as required.

Regulations at 24 CFR 982.405(b) and HUD Guidebook 7420, sections 10.6 and 10.9, as well as the Authority's administrative plan, require that quality control inspections be completed as part of SEMAP indicator 2. Section 10.9 further requires that a public housing authority maintain a quality control tracking system to document units inspected and the results. However, Authority officials could not provide documentation to support that required quality control inspections were conducted during program years 2010, 2011, and 2012. Authority officials said that they conducted the quality control inspections, but the inspections were not identified in the inspection tracking system because they were entered with an incorrect inspection code.

⁵ This represents one half of the \$245,954 administrative fee associated with the 13.3 percent of units that were not inspected.

Sampled Units Did Not Always Comply With Housing Quality Standards

Inspection of 16 randomly selected units conducted between April 8 and 12, 2013 disclosed that 9 units, for which rental assistance of \$62,789 had been paid, failed with material⁶ deficiencies as noted below. In addition, six units failed with minor deficiencies.

Nature of deficiency	Number of material deficiencies found in 9 of the 16 units inspected
Security concern (doors, locks, etc.)	9
Tripping-walking hazards	8
Improper outlet grounding	8
Deterioration of walls-ceilings-floors	7
Leak-disrepair of toilet-sink-shower	5
Disrepair of kitchen-bathroom cabinets-counters	5
Inoperable smoke detectors	5
Inoperable windows	3
Infestation	3
Blocked egress	3
Exposed heating pipe	1
Total occurrence of deficiencies	57

Ten of the fifteen units had been inspected by Authority officials as recently as March 13, 2013, and five had no record of having been inspected. After we informed Authority officials of the inspection results, they re-inspected the units, concurred with the deficiencies observed, and notified the landlords that housing assistance payments would be abated in accordance with regulations until the deficiencies were corrected. As of September 13, 2013, Authority officials said that the material deficiencies in six units had been corrected and payment for the other three had been abated. In addition, they said that the minor deficiencies in four of the remaining units had been corrected and two units were being corrected.

Conclusion

Authority officials could not provide assurance that all program-assisted units complied with HUD housing quality standards. We attributed this weakness to the Authority's inadequate unit inspection record keeping and inadequate controls

⁶ We concluded that a material deficiency exists if (1) the condition causing the deficiency was present for an extended period, (2) the condition existed but was not noted in a prior inspection, (3) deferred maintenance consistently failed the unit, and (4) the serious deficiency is non-tenant caused.

over the unit inspection process. As a result, approximately \$3.8 million in housing assistance was paid for units that were not inspected to ensure that they complied with housing quality standards, and \$122,977 of the Authority's administrative fee associated with these units was considered unsupported. Authority officials had taken action to ensure that the housing quality standards deficiencies identified in our inspections would be corrected.

Recommendations

We recommend that the Director of the HUD Newark Office of Public and Indian Housing instruct Authority officials to

- 1A. Provide documentation to support that the 252 units for which the Authority's records did not document that an annual inspection was performed during program year 2012 comply with housing quality standards. If such documentation cannot be provided, the \$3.89 million (consisting of \$3,768,868 in housing assistance payments and \$122,977 of the Authority's administrative fee paid related to those units) should be reimbursed to the program from non-federal funds.
- 1B. Strengthen housing quality standards inspection procedures by determining the Authority's inspection needs and prepare a plan acceptable to HUD that ensures that required inspections will be accomplished in a timely manner, thus providing greater assurance that units for which housing assistance payments of \$3,768,868 will be paid would comply with housing quality standards.
- 1C. Reimburse from non-federal funds the \$62,789 in housing assistance disbursed for the nine units that materially failed housing quality standards inspection.
- 1D. Provide certifications from the landlords and the Authority's re-inspections supporting that the deficiencies in the nine units that evidenced housing quality standards noncompliance have been corrected, or documentation that the housing assistance payments have been abated thus ensuring that \$18,266 to be paid for these units during the current certification period will be put to good use.
- 1E. Strengthen controls to ensure that a historical log of all housing quality standards inspections is maintained as required by the Authority's administrative plan.

Finding 2: The Authority Had Weaknesses in Housing Choice Voucher Program Administrative Controls

There were administrative control weaknesses in the Authority's Housing Choice Voucher program. Specifically, Authority officials lacked adequate documentation to support that rental subsidy amounts were accurately calculated, all tenants were eligible for assistance, and applicants were properly selected from the waiting list. We attributed this deficiency to Authority officials' not ensuring compliance with their controls over tenant certification, rental subsidy determinations and documentation, and selection of tenants from the waiting list. Consequently, Authority officials disbursed \$184,867 in questionable housing assistance payments.

Documentation To Support Subsidy Amounts and Tenant Eligibility Was Inadequate

The Authority lacked adequate documentation to support rental subsidy calculation and tenant eligibility in compliance with regulations at 24 CFR Part 982 and the Authority's administrative plan. We reviewed 25 randomly selected tenant files to determine whether the Authority's files had adequate documentation for and correctly calculated participants' housing assistance and utility allowance payments. While the administrative controls established in the Authority's program administrative plan and applicable policies were adequate if implemented as designed, these controls were not adequately implemented.

We observed significant deficiencies with rental subsidy calculation and other administrative issues that could have an impact upon the proper rental subsidy determination in 5 of the 25 tenant files reviewed. These deficiencies included improperly applying income limitation rules, incorrectly calculating or inadequately supporting amounts to determine tenant income, and not adequately supporting allowances and deductions. Without adequate support for tenant rental subsidy calculation, HUD could not be assured that five program participants and their families were eligible for assistance and received the proper rental subsidy. Specifically, \$49,350 in housing assistance payments provided for four tenants whose files did not properly document subsidy calculations was considered unsupported, and \$18,756 provided for one tenant who underreported income over multiple years was considered ineligible.

In addition, 19 files contained documentation deficiencies, such as failure to document current leases and housing assistance payments contracts, and 3 files lacked documentation that tenants' income was verified through the Enterprise Income Verification (EIV) System during the most recent recertification. Regulations at 24 CFR 982.158(e) require maintenance of a copy of the executed lease during the term of each assisted lease and for at least 3 years thereafter, and

regulations at 24 CFR 5.233(a) requires the use of EIV as a third party source to verify tenant employment and income information during mandatory reexaminations or recertifications of family composition and income.

Further, the Authority did not document valid Social Security numbers for all tenants as required by regulations at 24 CFR 5.233 or the use of EIV as required by Public and Indian Housing Notice 2012-10. Analysis of the Authority's housing assistance payment register for all of its Section 8 programs identified three tenants with invalid Social Security numbers on file, and Authority officials could not provide documentation that the Authority collected valid Social Security numbers for these three tenants or that their incomes were verified through EIV. HUD requires the use of EIV to reduce administrative and subsidy payment errors. Therefore, we considered the housing assistance of \$116,761 paid for these tenants from April 2010 to June 2013 to be unsupported.

Applicants Not Always Properly Selected From the Waiting List

Authority officials did not properly administer the City's Housing Choice Voucher program waiting list. Our review of Housing Choice Voucher program applicants who were provided vouchers during the period April 1, 2012, through March 31, 2013, disclosed that five tenants had not been on the Authority's waiting list and one applicant was bypassed in favor of other applicants lower on the list. Authority officials did not provide documentation to support these selections. However, the Authority's administrative plan provides that families are to be selected from the waiting list in their determined sequence, regardless of family size, subject to income targeting requirements and that when there is insufficient funding available for the family at the top of the waiting list, the Authority will not admit another applicant until funding is available for the first applicant. Further, while Authority officials merged their Housing Choice Voucher program with that of the City of Paterson in January 2013, they continued to maintain two waiting lists.

Conclusion

The Authority had weaknesses in its administrative controls over rental subsidy calculations, tenant certifications, and the selection of tenants from its waiting list. Consequently, HUD lacked assurance that the \$166,111 in unsupported and \$18,756 in ineligible housing assistance payments for five tenants were disbursed in accordance with program regulations. We attributed this deficiency to Authority officials' not ensuring compliance with established controls over (1) rental subsidy calculation determination and documentation, (2) tenant certification, and (3) the order of selection of tenants from the waiting list.

Recommendations

We recommend that the Director of the HUD Newark Office of Public and Indian Housing instruct Authority officials to

- 2A. Provide adequate documentation to support that the \$49,350 disbursed on behalf of four tenants with inadequately supported housing assistance determinations was properly disbursed. Any amount for which support cannot be provided should be repaid from non-Federal funds.
- 2B. Reimburse the Authority's program from non-federal funds the \$18,756 disbursed on behalf of a tenant who underreported income for multiple years.
- 2C. Provide adequate documentation of a valid Social Security number for the three tenants without valid Social Security numbers on whose behalf \$116,761 in housing assistance payments was disbursed. Any amount not supported should be repaid from non-Federal funds, and the status of any tenant deemed ineligible should be determined in accordance with the Authority's administrative plan.
- 2D. Strengthen controls over tenant certification and rental subsidy calculation documentation to provide greater assurance that housing assistance payments are properly determined and documented in accordance with regulations.
- 2E. Strengthen controls over tenant certification files to ensure that up-to-date copies of tenant leases, or addendums, housing assistance payment contracts and documentation evidencing the use of EIV are maintained in the tenant files in accordance with regulations at 24 CFR 982.158(e) and 5.233(a).
- 2F. Strengthen controls over waiting list administration to ensure that applicants are placed on and selected from the waiting list in a fair and consistent manner in accordance with program regulations.
- 2G. Take action in consultation with HUD, to merge the separately maintained Paterson Housing Authority and the City of Paterson Housing Choice Voucher program waiting lists to ensure that applicants are selected for assistance in a fair and consistent manner in accordance with program regulations.

Finding 3: The Authority Had Weaknesses in Financial Controls and the Procurement Process Used To Hire an Inspector

There were weaknesses in the Authority's Housing Choice Voucher program financial controls. Specifically, officials lacked adequate financial controls to ensure the collection of port-in receivables, that duplicate housing assistance payments were not made, and disbursements to landlords and tenants were monitored to ensure receipt. We attribute these deficiencies to Authority officials' inadequate oversight in administering the program. As a result, Authority officials failed to collect all receivables on behalf of port-in tenants⁷, and lacked assurance that housing assistance payments were not made for vacant units and outstanding checks to landlords and tenants were cashed within a reasonable timeframe. In addition, there were weaknesses in the Authority's procurement process used to hire a housing quality standards inspector. Specifically, Authority officials did not properly execute a contract or adequately monitor the status of the contractor's performance against the contract provisions. Thus, the lack of oversight resulted in a contractor being paid more than the amount allowed by the Authority's small purchase policy.

Financial Controls Were Inadequate

Authority officials did not implement adequate financial controls to ensure that receivables on behalf of port-in tenants were collected in a timely manner, housing assistance payments were not made for vacated units, and disbursements to landlords and tenants were monitored to ensure receipt. Authority officials wrote off as uncollectible \$440,173 in receivables for port-in tenants as of March 31, 2012. Authority officials stated that although bills were sent to the initial public housing authorities, collection was not made and they did not seek HUD assistance to collect the receivable amount.

HUD Guidebook 7420.10G, section 13-5, provides that Authority officials may contact HUD to reduce the administrative fees for the initial public housing authority if the authority does not promptly reimburse the receiving authority or impose other sanctions against authorities that do not comply with portability procedures. Authority officials acknowledged that in the past, there had been weaknesses with their procedures for ensuring collection of port-in receivables. However, analysis of the port-in receivable account as of June 30, 2013, disclosed that \$90,666 was 90 days past due and no action had been taken to recover this amount. Without adequate controls over the monitoring of its port-in accounts receivable, the Authority lacked assurance that the \$90,666 would be collected.

⁷ "Port-in tenants" refers to the process of portability, a feature of the Housing Choice Voucher program in which an eligible family has been issued a housing choice voucher and may use that voucher to lease a unit anywhere in the United States where there is a housing agency operating a Housing Choice Voucher program.

HUD Guidebook 7420.10G, section 11-4 prohibits making duplicate housing assistance payments for a tenant in the same month unless a tenant moved out after the first of the month. However, Authority officials made duplicate housing assistance payments related to five tenants who had transferred out of their units. For the same month, officials paid the landlords for the tenants' prior unit and the unit into which the tenant transferred without explanation. We attributed this deficiency to an oversight on the part of Authority officials. As a result, we considered the \$6,285 in payments as potential duplicate housing assistance payments.

As of June 30, 2013, the Authority had a balance of \$255,100, representing housing assistance payments and utility allowances that had been paid but not cashed for more than 180 days. The Authority's accountant had reclassified \$47,483 of the \$255,100 as deferred revenue as of March 31, 2012, for amounts uncashed before January 1, 2010. However, without following up on disbursements outstanding for more than 180 days, the Authority lacked assurance that the amounts disbursed represented valid and proper housing assistance payments and utility allowance obligations. Since the amount of these uncashed checks was not included in the Authority's housing assistance payment reserve account, these funds could not be used to offset future drawdown of housing assistance funds.

Procedures for Contracting for an Inspector Were Inadequate

There were weaknesses in the small purchase procurement process used to hire a housing quality standards inspector. We attributed this deficiency to inadequate oversight due to the expedited need to have unit inspections conducted. While the Authority's small purchase procurement regulations, part 1, section 2-5, provide that an independent cost estimate must be prepared before a solicitation, no independent estimate had been prepared. In addition, the Authority's procurement regulations provide that the quality and quantity of materials or services to be procured should be clearly and concisely described. Authority officials stated that a cost estimate was completed by analyzing three bids that had already been solicited. Further, the Authority's board passed a resolution approving the procurement of an inspector for a 1-year period to assist in conducting 500 inspections; however, while the resolution specified the amount to be paid for three different types of inspections, neither the resolution nor the contract specified a maximum amount to be paid. Authority officials said that the contractor had performed more than 600 inspections as of July 2013, had been paid \$24,148 as of September 19, 2013, and would complete at least 300 additional inspections. Consequently, the number of inspections performed exceeded the contract provisions, and the amount paid exceeded the Authority's small purchase threshold of \$21,500.

Conclusion

There were weaknesses in the Authority's Housing Choice Voucher program's financial controls and the procurement controls used to hire a housing quality standards inspector. We attributed these deficiencies to Authority officials' lack of adequate oversight in administering the Authority's program. Consequently, Authority officials failed to collect all receivables that were more than 90 days past due on behalf of port-in tenants and lacked assurance that duplicate housing assistance payments were not made and payments were properly reconciled. In addition, Authority officials executed a contract for unit inspections using the small purchase method, but paid the contractor more than the amount allowed through the small purchase method.

Recommendations

We recommend that the Director of the HUD Newark Office of Public and Indian Housing instruct Authority officials to

- 3A. Strengthen financial controls to bill for port-in receivables in a timely manner and seek assistance from HUD when receivables are 90 days overdue to provide greater assurance that the Authority will collect the revenue and administrative fees to which it is entitled. If these controls are implemented, the Authority will have greater assurance that its receivables of \$90,666 will be collected, thus provide greater assurance that these funds will be put better use.
- 3B. Reimburse from non-Federal funds the \$6,285 in duplicate housing assistance payments.
- 3C. Implement procedures to determine whether uncashed housing assistance and utility allowance payments represent a valid obligation and if not, return the amounts to the program to provide greater assurance that funds totaling \$255,100 will be available for other eligible purposes.
- 3D. Take action to develop an independent cost estimate and procure a new contract for housing quality control inspection services that specify the number of inspections to be conducted and a maximum dollar amount to be paid, and seek Board approval for the \$2,648 disbursed to date in excess of the approved small purchase threshold.

SCOPE AND METHODOLOGY

The audit focused on whether Authority officials established adequate controls to ensure that they administered their Housing Choice Voucher program in accordance with applicable regulations. We performed the audit fieldwork from March to September 2013 at the Authority's office at 60 Van Houten Street, Paterson, NJ.

To accomplish the audit objectives, we

- Reviewed HUD's Housing Choice Voucher program regulations and the Authority's program policies and procedures.
- Documented and obtained an understanding of the Authority's financial and administrative controls.
- Interviewed HUD field office and Authority officials.
- Reviewed the Authority's independent public accountant reports and HUD monitoring reports for program years 2010 through 2012.
- Reviewed the Authority's financial and management data reported in HUD's Central Accounting and Program System, Voucher Management System, and Public and Indian Housing Information Center system, and reconciled the data to the Authority's records. Our assessment of the reliability of these data was limited to the data sampled and reconciled with data in the Authority's records; therefore, we did not assess the reliability of these systems.
- Reviewed the Authority's HUD-approved Housing Choice Voucher program annual plans for fiscal years 2009, 2010, 2011, and 2012; annual contributions contracts; voucher for payment of annual contribution and operating statement; financial data schedules; contract files; general ledger, and outstanding check register.
- Applied computer-assisted auditing techniques to identify questionable housing assistance payments, duplicate payments, port-ins and port-outs, possible prohibited tenant and landlord relationships, and the validity of Social Security and employer identification numbers.
- Applied EZ Quant to pick a nonstatistical sample of 25 tenant files from the housing assistance payment register to test compliance with HUD regulations regarding (1) tenant eligibility, (2) unit size, (3) rent reasonableness determination, (4) subsidy computation, (5) tenant share of the rent, and (6) timely recertification. The results of this sample are limited to the items tested and cannot be projected to the universe of tenant certifications. The nonstatistical sample of 25 tenant files included 15 tenant files from the Authority's initial Housing Choice Voucher program unit inventory of 1,166 units and 10 tenant files from the Authority's inventory of 2,237 units after absorbing the City's inventory.

- Applied EZ Quant to pick a nonstatistical sample of 15 units from the Authority's original Housing Choice Voucher program inventory of 1,166 units to test for housing quality standards compliance. The results of this sample are limited to the items tested and cannot be projected to the current universe of 2,237 program-assisted units as of February 2013.
- Reviewed the disposition of the 75 applicants on the City's waiting list who were requested by Authority officials to attend a Housing Choice Voucher program briefing on June 6 and 7, 2012.
- Reviewed and analyzed the Authority's housing quality standards inspection logs and reports to determine whether inspections were conducted as required and that proper follow-up was being conducted for units that failed inspections.
- Reviewed the Authority's procurement process for the contract awarded to a housing quality standards inspector.
- Reviewed Authority officials' administration of the Housing Choice Voucher program waiting list and the selection of tenants to receive program assistance.

The review generally covered the period March 1, 2010, through June 30, 2013, and was extended as needed to accomplish our objectives. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

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 objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with 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.
- Reliability and validity of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in the reports.

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 over program operations and compliance with regulations when they did not ensure that program-assisted units were inspected annually, a housing quality standards inspection log was properly maintained, quality control inspections of housing quality standards inspections were performed, and tenants were properly selected from the waiting list (see findings 1 and 2).
- Authority officials did not have adequate controls over the reliability and validity of data when they did not maintain adequate documents to support tenant certifications and rental subsidy assistance calculations (see finding 2).
- Authority officials did not have adequate controls to safeguard resources when they did not ensure that port-in receivables and associated earned administrative fees were collected (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/ Ineligible 2/	Funds to be put to better use3/
1A	\$3,891,845	
1B		\$3,768,868
1C		
1D		18,266
2A	49,350	
2B		
2C	116,761	
3A		90,666
3B		
3C		255,100
3D	2,648	
Total	<u>\$4,060,604</u>	<u>\$4,132,900</u>

- 1/ 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.
- 2/ 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.
- 3/ 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 case, if Authority officials (1) develop a plan in consultation with HUD to ensure that all assisted units are inspected annually as required (2) document that the nine noncompliant units now comply with housing quality standards, (3) implement controls to provide greater assurance that port-in receivables will be timely collected and (4) implement procedures to ensure that uncashed assistance

checks are valid obligations, they can be assured that more than \$4.1 million in funds will be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation


Auditee Comments

Comment 1

Comment 2

Comment 3

Comment 4

 <p>60 Van Houten Street • P.O. Box H • Paterson, N.J. 07509 • Tel: 973-345-5080 • Fax: (973) 977-9085</p>	<p>PATERSON HOUSING AUTHORITY</p>
<p>December 17, 2013</p>	
<p>BOARD OF COMMISSIONERS</p> <p>REV. MICHAEL McDUFFIE Chairperson</p> <p>Erma L. Bonds Vice Chairperson</p> <p>Hilda Diaz Ferdous Hussain Rev. Dr. Douglas L. Maven Ada V. Pugh Eva Razzak</p> <p>IRMA GORHAM Executive Director</p>	<p>Mr. Edgar Moore Regional Inspector General for Audit US Dept. of Housing and Urban Development 26 Federal Plaza, Room 3430 New York, NY 10278</p> <p>Re: Housing Authority of the City of Paterson Housing Choice Voucher (HCV) Program Draft Audit</p> <p>Dear Mr. Moore:</p> <p>Please accept this correspondence in response to the Housing Authority of the City of Paterson Housing Choice Voucher (HCV) Program Draft Audit dated November 25, 2013. In this letter I will address some of the concerns that have been raised during the exit conference held on December 11, 2013 due to certain language used throughout the draft audit report. I will also provide specific responses to the recommendations made as a result of the audit findings. We are requesting a meeting with you to discuss our concerns before this report is released.</p> <p>Initially, at the entrance conference we were assured by your staff that we were not being audited, but were under review because our agency had come to light as a result of the audit that the office of the HUDOIG had conducted at the City of Paterson and to be specific "your staff stated that a review of the OIG files did not show that the Housing Authority of the City of Paterson was ever reviewed by the OIG, therefore, they wanted to perform a brief review of the HCV program". It is important to note that the HUD OIG staff initially requested documentation for the Housing Authority HCV program for the period April 2010 to December 2012 and later the HUD OIG staff expanded their request for documentation relating to the HCV program that the PHA administered through an intergovernmental agreement for the City of Paterson Department of Community development beginning in the last quarter of 2006. In addition, HUD OIG staff requested more documentation through June 2013. This resulted in the Leasing & Occupancy and the Finance Departments proving multiple reports which in some cases were not consistent to the requests made.</p> <p>The highlights stated that the Authority financial controls were not adequate to ensure that port-in receivables were collected resulting in housing assistance payments being made to vacant units and as a result outstanding checks to landlords were not cashed within a reasonable timeframe. We strongly request that this language be corrected or restated because the outstanding receivables and outstanding checks are not related.</p> <p>Page 1 of 4</p>

Ref to OIG Evaluation

Auditee Comments

Comment 5

Comment 6

Comment 7

Comment 8

Comment 9

Comment 8

Comment 8

PHA Comment #1 - As to the issues concerning the statement contained in **Finding #1** of the draft audit report that documentation was lacking that assisted rental units were inspected annually and annual quality control inspections were performed, we strongly disagree with the characterizations of housing assistance of almost \$3.8 million was paid for units without evidence that they complied with housing quality standards and \$18,266 will be paid for units that officials recently made housing quality standards compliant. The PHA reviewed the list of 252 units relating to the \$3.8 million not having any evidence of annual inspection during the HUD OIG review period and of the 252 units we found that as of June 2013, the PHA had completed HQS inspections of the 156 of 252 units valuing \$2,393,936. Of the remaining 96 units 45 units have been inspected as of December 17, 2013 valuing \$744,804. Currently there are 51 units to be inspected valuing \$630,128.

Therefore, we request that the draft report be corrected and reference that 96 units remain uninspected as of June 2013 representing approximately 5% of the units under lease. We further request that the issues raised in Finding #1 of the Draft Audit report recommending that the Director of the HUD Newark Office of Public and Indian Housing instruct the Authority to reimburse the program \$3,768,868 in housing assistance payments, \$122,977 in Administrative fees and the \$62,789 for the nine units that failed housing quality inspections be modified as we have documentation to support these expenses.

The Housing Authority has taken steps prior to the start of the review by the HUD OIG by implementing a systematic process for conducting HQS inspections which includes contracting the services of an outside HQS inspector, implementing the hand held tablet for HQS annual inspections. In addition, the Authority has engaged the services of our software company to assist in training of the inspectors, timely scheduling of unit inspections, notification to HCV landlords of inspection results and timely updating the system as inspections are completed. It is our belief that with the steps that we have implemented and incorporating the recommendations made by HUD OIG, the Housing Authority will strengthen the HQS process.

PHA Comment #2 - As to the issues concerning the statement contained in **Finding #2** of the draft audit report. The Housing Authority reviewed the files relating to recommendation 2A and the files in question (Clients: [REDACTED] [REDACTED] were provided to the OIG staff as requested. Of the four files we found that all information relating the OIG calculation of the \$49,350 were in the tenants files with the exception of tenant, [REDACTED]. We are requesting that the recommendation in 2A be corrected to include only the discrepancy for [REDACTED]. The Housing Authority discussed recommendation 2B in detail at the exit conference; the Authority will address this case in accordance with the administrative plan and if no resolution with the tenant is reached the case will be turned over to the Prosecutor for prosecution. With respect to recommendation 2C, the Housing Authority had issued notification letters in the past to the clients to provide valid social security cards and also enlisted the assistance of our attorney and other federal agencies to resolve some of these sensitive issues. Furthermore, the Housing Authority will issue to these clients a follow up letter. In the housing landscape, alternate identification numbers are accepted by HUD/PIC for eligibility processing.

Comment 8**Comment 10**

With respect to recommendation 2D through 2G, the Housing Authority will continue to implement policies to strengthen internal controls and tenant selection process. The Housing Authority implemented a procedures manual that standardizes all aspect of the tenant selection process. A copy was provided to the OIG staff. A review of the waiting list clients in question revealed that the correct process was followed. There were two port-in clients in question on the OIG list as jumping ahead of other clients. Port-in clients are not selected from the Housing Authority waiting list. The other clients were existing clients relocating to new units. The mergers of the two waiting lists were completed in April 2013. The clients in question did not impact the operation of the waiting list.

PHA Comment #3 - As to the issues concerning the statement contained in **Finding #3** of the draft audit report, "The Authority had weaknesses in financial controls and the procurement process used to hire an inspector." The Authority acknowledges that more can be done to ensure that outstanding receivables are collected in a timely manner as recommended.

Comment 8

The program regulations at 24 CFR 982.355(e) provide that the receiving PHA may bill the initial PHA for housing assistance payments (HAP) and administrative fees to fund the assistance for a portable family. The regulations require that the initial PHA must promptly reimburse the receiving PHA for the full amount of the HAP payments and with 80 percent of the on-going administrative fee (or a negotiated amount if both PHAs agree) for each month that the family receives assistance from the receiving PHA. However, we must note that the Authority has taken steps to reduce the receivables as was evidenced in the draft audit report and we will continue to review our process and will begin issuing a monthly reminder letter to each sending HA to make port-in reimbursements promptly in accordance with the regulations.

Comment 11

As to the issue raised in recommendation 3C., "Implement procedures to determine whether uncashed housing assistance and utility allowance payments represent a valid obligation and if not, return the amounts to the program to provide greater assurance that funds totaling \$255,100 will be available for other eligible purposes." The Authority has no control over when checks are presented to the bank for payment by our clients. The Authority checks are printed with the following note "VOID AFTER 120 DAYS." The Authority issues valid checks to landlords and residents entitled to receive UAP checks and the Authority reconciles the bank account each month. We have established procedures to minimize fraud. The Authority will implement a process to return uncashed checks on the books to the HAP reserve on a yearly basis going forward. However, it is important to note that we have had cases where payees hold onto checks for extended periods and when those staled dated checks are presented to the bank, it is the sole discretion of the bank to honor those stale dated checks.

Comment 8

As to the issue of recommendation 3D; the Authority presented a resolution to update the current independent HQS inspector contract at the board meeting on December 16, 2013. In addition, the Authority is in the process of developing an RFP to procure the services of outside independent contractors to ensure that the HQS inspections are done in a timely manner.

I thank you for the opportunity to provide you with our thoughts and comments on the Draft Audit Report. We look forward to discussing it further with you at the requested meeting before the final report is issued.

Respectfully Yours,

A handwritten signature in black ink, appearing to read "Irma Gorham".

Irma Gorham
Executive Director

c: Delores Melvin, Division Director
Kenneth Atkinson, RHS

OIG Evaluation of Auditee Comments

- Comment 1** During a teleconference on December 20, 2013 Authority officials stated that they could produce documentation to support that many units questioned as uninspected had in fact been inspected. However, they were advised that such documentation was not provided during the audit or at the exit conference, and that any documentation will need to be provided to HUD during the audit resolution process.
- Comment 2** In an audit notification letter dated January 28, 2013, Authority officials were advised that the Authority's Housing Choice Voucher Program would be the subject of an OIG review, the objectives of which "are to determine whether Authority officials established adequate controls to ensure that Housing Choice Voucher Program funding is expended for eligible purpose and that the Program is administered in compliance with HUD Section 8 regulations". In addition, at the entrance conference Authority officials were advised that the Authority's Housing Choice Voucher Program had been selected for a survey based upon a risk assessment by the OIG that considered various factors, including the fact that the Authority's program had not been recently reviewed by the OIG.
- Comment 3** As stated in the January 28, 2013 audit notification letter, the Authority was advised that "the review period will generally be April 1, 2010 through December 31, 2012, and can be extended as needed". In order to acknowledge and report on corrective actions undertaken by the Authority in the area of housing quality standards inspections, we did extend the period through June 30, 2013. In addition, the Authority had been administering the City's program under an intergovernmental agreement; however, it officially assumed responsibility for the program and merged it with its own program during our review in January 2013.
- Comment 4** As agreed to by Authority officials at the exit conference, the language was changed to "Financial controls were not adequate to ensure that port-in receivables were collected, duplicate housing assistance payments were not made, and uncashed checks disbursed to landlords and tenants were adequately monitored".
- Comment 5** The Authority's inspection log provided during the audit disclosed that 252 assisted units had not been identified as having been inspected within the year ending June 30, 2013. Although officials state that they subsequently inspected most of these units, evidence to support such inspections was not provided to the OIG auditors while on-site. Therefore, any additional documentation to support that units were inspected should be provided to HUD during the audit resolution process. Further, since Authority officials did not provide documentation during the audit that quality control inspections were conducted, this evidence must also be provided to HUD as required by regulations at 24 CFR 982.405(b). In addition, the \$18,266 still represents assistance that will be paid for units that Authority officials made housing quality standards compliant during the audit.

- Comment 6** The report was not adjusted to show that 96 units remain uninspected because as stated in comment 5 above, auditee officials did not provide evidence of additional inspections during the audit. Nevertheless, modification of the unsupported housing assistance payments and administrative fees will be made with HUD during the audit resolution process upon review of any additional supporting documents provided to HUD.
- Comment 7** The \$62,789 representing housing assistance payments deemed ineligible because they were paid for units that did not comply with housing quality standards, will have to be repaid unless additional documents are provided to HUD during the audit resolution process that indicate that the amount should be modified or not repaid.
- Comment 8** The proposed corrective action responds to the report finding and related recommendation and HUD will determine whether the action implemented is sufficient.
- Comment 9** The OIG disagrees with the Authority officials' position concerning the tenant files cited in the draft report. While Authority officials were made aware of the deficiencies observed in the four tenant files on April 30, 2013 and August 30, 2013, they did not provide a response to our observations. Any documentation Authority officials have now obtained should be provided to HUD during the audit resolution process.
- Comment 10** During subsequent review we concluded that one, not two applicants were by-passed, and have adjusted the report to reflect that. However, this applicant was by-passed by other non-port-in applicants contrary to the waiting list procedures. Additionally, while the deficiency in the selection of the other five tenants was communicated to Authority officials on August 6, 2013, they did not provide a response during the audit or any documentation at the exit conference to support that the tenants were properly selected. Further, during the audit Authority officials provided two separate waiting lists dated June 28, 2013 that were not merged. Therefore, any documentation Authority officials have now should be provided to HUD during the audit resolution process.
- Comment 11** The proposed action is responsive to the recommendation to return outstanding checks that do not represent valid obligations; however, Authority officials also need to strengthen procedures to determine in a more timely manner whether outstanding checks represent valid obligations.