



City of Paterson, NJ

Housing Opportunities for Persons With AIDS Program



Issue Date: February 25, 2013

Audit Report Number: 2013-NY-1004

TO: Anne Marie Uebbing
Director, Office of Community Planning and Development, Newark Field
Office, 2FD

FROM: *Edgar Moore*
Edgar Moore
Regional Inspector General for Audit, New York-New Jersey Region, 2AGA

SUBJECT: The City of Paterson, NJ, Had Weaknesses in the Administration of Its Housing
Opportunities for Persons with AIDS Program

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the City of Paterson, NJ officials' administration of their Housing Opportunities for Persons with AIDS (HOPWA) Program conducted to determine whether Authority officials administered the HOPWA Program in accordance with HUD requirements.

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 8L, 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.



February 25, 2013

The City of Paterson, NJ, Had Weaknesses in the Administration of Its Housing Opportunities for Persons with AIDS Program

Highlights

Audit Report 2013-NY-1004

What We Audited and Why

We audited the City of Paterson, NJ's Housing Opportunities for Persons With AIDS (HOPWA) program in support of the Office of Inspector General's (OIG) goal to contribute to improving HUD's execution of its fiscal responsibilities. We selected the City after a risk analysis of HOPWA grantees administered by the HUD Newark, NJ, field office that considered funding, the U.S. Department of Housing and Urban Development's (HUD) 2011 risk assessment score, and HUD monitoring of the grantees. The audit objective was to determine whether City officials had implemented adequate controls to ensure that HOPWA funds were obligated and expended in accordance with HUD regulations for eligible activities.

What We Recommend

We recommend that the Director of HUD's New Jersey Office of Community Planning and Development instruct City officials to (1) expend or deobligate \$483,502; (2) reimburse \$15,776 disbursed for ineligible expenses; (3) provide documentation to adequately support expenditures of \$357,800; and (4) strengthen controls over subgrantee monitoring, tenant certification, and compliance with HUD's housing quality standards.

What We Found

City officials did not always administer the City's HOPWA program in accordance with Federal regulations and HOPWA program requirements. Specifically, HOPWA funds were expended for ineligible and unsupported costs, subgrantee monitoring was inadequate, and waiting list maintenance had weaknesses. These conditions existed because of City officials' unfamiliarity with HUD program regulations and weaknesses in financial and management controls. Consequently, (1) \$483,502 was not disbursed in a timely manner; (2) \$15,776 was expended on ineligible costs; (3) \$357,800 was expended on unsupported costs; and (4) \$480,179 in HOPWA funds would be put to better use if adequate financial and management controls were implemented over tenant recertification, unit inspections, classification and recording of costs, and subgrantee administration and monitoring.

TABLE OF CONTENTS

Background and Objective	3
Results of Audit	
Finding 1: Funds Were Not Always Expended in Compliance With HUD Regulations	4
Finding 2: Weaknesses in Monitoring Subgrantees Resulted in Improper and Unsupported Expenses	8
Finding 3: Program Implementation Did Not Always Comply With HOPWA Requirements	14
Scope and Methodology	16
Internal Controls	18
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	20
B. Schedule of Project-Based Rental Subsidies Obligated but Not Disbursed	21
C. Schedule of Tenant-Based Rental Subsidies To Be Paid Before Tenants' Recertification	22
D. Auditee Comments and OIG's Evaluation	23

BACKGROUND AND OBJECTIVE

The Housing Opportunities for Persons With AIDS (HOPWA) program was authorized by the AIDS Housing Opportunity Act, Subtitle D of Title VIII of the Cranston-Gonzalez National Affordable Housing Act of 1990 (42 U.S.C. (United States Code) 12901). The HOPWA program provides formula and competitive grants to eligible States, cities, and nonprofit organizations to provide housing assistance and related supportive services to meet the housing needs of low-income persons and their families living with HIV-AIDS. HOPWA assistance helps beneficiaries maintain housing stability, avoid homelessness, and gain improved access to healthcare and other supportive services.

The U.S. Department of Housing and Urban Development (HUD) awarded the City of Paterson, NJ, more than \$1.3 million in HOPWA funds in each of program years 2010 and 2011. The City of Paterson Department of Health and Human Services administers the program for the City, and Department officials annually award HOPWA funds to six subgrantees: two public housing authorities, Bergen County and Paterson, NJ, and four nonprofit organizations, CAPCO, BUDDIES of New Jersey, Alliance of Passaic, and Straight and Narrow. These subgrantees carry out different housing activities, including tenant- and project-based rental assistance, and provide various counseling, nutritional, legal, and transportation services to recipients.

The objective of the audit was to determine whether City officials had established and implemented adequate controls to ensure that HOPWA funds were obligated and expended in accordance with HUD regulations for eligible activities.

RESULTS OF AUDIT

Finding 1: Funds Were Not Always Expended in Compliance With HUD Regulations

City officials did not ensure that HOPWA funds were always disbursed in a timely manner for adequately supported costs and properly accounted for in accordance with HUD regulations. We attribute these conditions to City officials' unfamiliarity with HUD regulations and inadequate controls over program operations. As a result, available funds of \$483,502 were not expended for eligible activities in a timely manner as required, \$20,160 was disbursed for inadequately supported costs, and obligations reported in HUD's Integrated Disbursement and Information System did not reconcile with the grant amounts awarded.

Available Funds Not Expended in a Timely Manner

City officials did not always disburse funds in a timely manner. As shown below, HUD's Integrated Disbursement and Information System¹ disclosed that funding award amounts from 2007 to 2009 of \$483,502 had not been disbursed within 3 years of an executed grant agreement.

<u>Program year</u>	<u>HUD award</u>	<u>Funds not spent as of 08/30/2012</u>	<u>Funds not spent within 3 years</u>
2007	\$ 1,250,000	\$80,101	\$80,101
2008	1,286,736	14,763	14,763
2009	1,301,766	388,638	388,638
2010	1,404,206	335,519	<u>1/</u>
2011	1,381,032	1,381,032	<u>1/</u>
2012	1,380,000	1,380,000	<u>1/</u>
Totals		\$3,580,053	\$483,502

Note: 1/ These funds had been awarded within the last 3 years and were not yet required to be expended.

As a result, the City's latest timeliness ratio² was 2.59 percent as compared to HUD's national goal ratio of 1.5 percent or lower. Disbursement of the \$483,502

¹ HUD's Integrated Disbursement and Information System is a nationwide database of current information regarding community planning and development activities underway across the Nation, including funding and accomplishment data. HUD uses this information to report to Congress and to monitor grantees

² The timeliness ratio is computed by dividing the amount of undisbursed funds from the present and all prior years by the grantee's latest funding award. Based upon Integrated Disbursement and Information System data as of August 31, 2012, the ratio was computed at 2.59 percent (\$3,580,053/\$1,380,000).

in a timely manner would provide targeted recipients needed assistance. Regulations at 24 CFR (Code of Federal Regulations) 574.540 provide that HUD may deobligate any amount of grant funds that have not been expended within 3 years of the signing of a grant agreement. HUD's HOPWA Grantee Oversight Resource Guide notes that the pace of spending is a key indicator of project progress and spending rates that seem too slow or are erratic may indicate problems with project or financial management. During our audit, the HUD field office advised City officials of the potential for recapture of the unspent funds and asked them to provide specific reasons for the delay in spending the funds and a timetable for when they would be spent. At the time of our audit, the City had not responded.

In addition, none of the more than \$2.7 million awarded in 2011 and 2012 had been obligated. City officials said that eligible activities were not obligated in HUD's Integrated Disbursement and Information System for program years 2011 and 2012 since the City's legal department had been unable to provide them with copies of executed subgrantee agreements. Consequently, these funds were not made available for eligible activities in a timely manner.

Funds Disbursed for Unsupported Costs

City officials lacked adequate support that \$20,160 was properly charged to the HOPWA program. Drawdowns of \$17,450 recorded as direct program costs in the City's general ledger were inadequately supported as direct program costs. Regulations at 24 CFR 574.3 provide that administrative costs are expenses for general management, oversight, coordination, evaluation, and reporting on eligible activities and do not include costs directly related to carrying out eligible activities, since those costs are eligible as activity delivery costs. The \$17,450 represents six disbursements for general supplies and computer information technology services that lacked adequate support to be used to determine whether they were properly classified as direct program costs rather than administrative expenses. Misclassifying these costs as direct program costs would prevent their use for eligible direct program activities.

Disbursement of \$2,710 for legal and travel-related expenses lacked documentation to determine whether these administrative expenses represented eligible HOPWA program costs. Regulations at 24 CFR 574.300 provide that HOPWA funds may be used for all forms of housing designed to prevent homelessness, including emergency housing, shared housing arrangements, apartments, single-room occupancy dwellings, and community residences, and for administrative costs related to general management, oversight, coordination, evaluation, and reporting. Without adequate supporting documentation, City officials could not be assured that the costs were for eligible program activities.

In addition, the City lacked a cost allocation plan to assign costs among the various programs the Department administered, particularly between the HOPWA and Ryan White programs.³ Regulations at 2 CFR Part 225, subpart C(3)(d), provide that Federal awards pay their fair share of costs and that a cost allocation plan is required when there is an accumulation of indirect costs that will ultimately result in charges to a Federal award. City officials said that indirect costs were allocated to the HOPWA program when the administrative cost allotment for the Ryan White program administered by the Department had been exhausted. Consequently, the lack of a cost allocation plan lessened assurance that indirect costs were allocated to the HOPWA program in a reasonable and timely manner.

Funds Not Properly Reconciled

Obligations reported in HUD’s Integrated Disbursement and Information System by City officials did not always reconcile with the City’s accounting records. Regulations at 24 CFR Part 85, subpart C, require that grantees maintain effective control and accountability, compare expenditures with budgeted amounts, and provide accurate, current, and complete disclosure of the financial results of financially assisted activities. As shown in the table below, obligations reported in the City’s records did not reconcile with those reported in HUD’s Integrated Disbursement and Information System in the last 11 years.

Program year	Amount in IDIS*	Amount in City records	Difference
2010	\$1,109,087	\$1,404,206	(\$295,119)
2009	1,332,977	1,301,766	31,211
2008	1,484,221	1,286,736	197,485
2007	1,591,127	1,250,000	341,127
2006	1,274,398	1,282,000	(7,602)
2005	1,303,934	1,265,000	38,934
2004	0	0	0
2003	1,118,042	1,368,000	(249,958)
2002	1,350,000	1,333,000	17,000
2001	1,166,371	1,252,000	(85,629)
2000	1,160,306	1,148,000	12,306

* HUD’s Integrated Disbursement and Information System

Consequently, City officials could not assure HUD that they provided accurate and reliable data on the use of the City’s grant funds.

³ The Ryan White HIV-AIDS Program, administered by the U.S. Department of Health and Human Services, is the largest Federal program focused exclusively on HIV-AIDS care and is for individuals living with HIV-AIDS who have no or insufficient health care coverage or lack financial resources to get needed HIV disease care.

Conclusion

City officials had not established and implemented adequate controls to ensure that HOPWA funds were disbursed for eligible costs and accounted for in accordance with HUD regulations. We attribute these deficiencies to the officials' unfamiliarity with HUD regulations and inadequate monitoring of the City's subgrantees (see finding 2). As a result, funds available for eligible activities were not expended in a timely manner as required, and City officials lacked assurance that HOPWA funds expended were adequately supported or accurately reported.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to

- 1A. Develop a timetable for the disbursement of the \$483,502 in unspent prior year HOPWA funds before drawing down additional funds from subsequent years' allotments; if a timetable for acceptable disbursement is not provided, the funds should be deobligated so that they can be made available to other grantees, thus being put to better use.
- 1B. Establish and implement controls to ensure that funds under a particular program year are expended in a timely manner before drawing down subsequent years' funding as required.
- 1C. Provide documentation to support that \$17,450 was properly charged as direct program administrative costs, and if support cannot be provided, reclassify the amount as administrative expenses, thus ensuring that direct program funds will be put to better use.
- 1D. Provide documentation to support that the \$2,710 was expended for eligible HOPWA activities; if supporting documentation cannot be obtained, the HOPWA program should be reimbursed from non-Federal funds.
- 1E. Strengthen controls to ensure that expenses are properly supported and correctly charged to appropriate accounts.
- 1F. Establish and implement controls to ensure that obligated balances are periodically reconciled to annual HOPWA award amounts.
- 1G. Develop and implement a cost allocation plan to ensure that indirect costs are reasonably allocated to the HOPWA program.

Finding 2: Weaknesses in Monitoring Subgrantees Resulted in Improper and Unsupported Expenses

Inadequate monitoring of subgrantees caused improper and unsupported expenses to be incurred. Specifically, some subgrantees disbursed HOPWA funds for ineligible and incorrectly calculated rental assistance payments, tenants whose eligibility was not adequately supported, and units that failed to meet HUD's housing quality standards. We attribute this condition to inadequate monitoring by the grantee and subgrantee officials' unfamiliarity with HUD regulations. As a result, \$353,416 was disbursed for ineligible and unsupported rental assistance payments, and \$186,786 could be put to better use if stronger management controls were implemented involving the recertification of tenants, compliance with housing quality standards, and monitoring subgrantees.

Ineligible and Unsupported Rental Assistance

Officials at one subgrantee disbursed \$990 for a tenant's monthly rental assistance at a unit from which the tenant had moved, while paying \$1,500 for another unit to which the same tenant had relocated. Subgrantee officials said that recovery of the ineligible payment had been made; however, no evidence was provided for the repayment. Since the City did not provide adequate supporting documentation that the \$990 was recovered, we regarded it as an ineligible payment.

Officials at another subgrantee incorrectly calculated both the maximum rental assistance and the tenants' share of the rent. The subgrantee received project-based rental assistance to operate a six-bedroom project, which was administered as shared housing.⁴ Regulations at 24 CFR 574.320 provide that the amount of grant funds used to pay shared housing monthly rental assistance for an eligible person may not exceed the difference between the lower of the rent standard or reasonable rent for the unit and the resident's rent payment calculated under 24 CFR 574.310(d). Regulations at 24 CFR 574.310(d) provide that the tenant payment, including rent and utilities, should be the higher of 30 percent of the family's monthly adjusted income or 10 percent of the family's monthly gross income or the portion of welfare payments received that is designated for housing costs. Further, regulations at 24 CFR 574.320 provide that rental assistance paid for shared housing arrangements should be in relation to the size of the private space allotted to an assisted individual in comparison to other private space in the shared unit, excluding common space.

⁴ Shared housing arrangements include one or more eligible participants living in the same unit who may be assigned a pro-rata portion of the unit cost based on the ratio of the number of bedrooms in their private space to the number of bedrooms in the unit.

Contrary to these regulations, project officials computed each resident’s monthly subsidy by dividing the project’s total monthly operating budget⁵ by six tenants (currently set at \$911.68 per month per tenant) and did not offset the budget by the tenants’ share of the rent. In addition, project officials calculated the tenants’ share of the rent by multiplying the tenants’ monthly gross income by 30 percent. By incorrectly calculating the tenants’ maximum subsidy and share of the rent, City officials could not assure HUD that the subsidy and tenants’ share of the rent were correct. As a result, the \$96,868 in project-based rental subsidies paid from July 2009 through June 2011 was unsupported, and the \$71,830 incurred but not drawn down for the period July 2011 to October 2012 could be put to better use if calculated correctly (see appendix B).

Inadequately Supported Rental Assistance Payments

Tenant files at one of two subgrantees administering tenant-based rental assistance did not always contain adequate documentation to support tenant or unit eligibility or both. Regulations at 24 CFR 574.3 require grantees to ensure that their project sponsors carry out activities in compliance with all applicable requirements, including recordkeeping and reports for program monitoring and evaluation purposes. The six tenant files reviewed at one subgrantee contained the following documentation deficiencies:

<u>Deficiency</u>	<u>Number of files with a deficiency</u>
Annual recertification missing	6
Lacking an HQS* inspection report	6
Lacking an annual rent reasonableness	6
HAP** contract or lease missing	6
Lacking a utility allowance calculation	5
Incomplete HUD form 50058	3
Other documentation inconsistencies	3
Unsupported income documentation	3
Tenant income not included	2
Inadequate family member support	1
Under-occupied unit	1

* HUD’s housing quality standards

** Housing assistance payment

Without adequate support in the subgrantee tenant files, HUD could not be assured that program participants were eligible for the amount of tenant-based rental assistance provided. As a result, \$225,021 disbursed for tenant-based rental

⁵ The monthly operating budget included the following direct and administrative costs: salaries and fringe benefits of case and resident managers; project supplies; travel expenses of the project case manager; contracts and other costs; and administrative personnel, fringe, and other costs.

assistance from September 2009 through October 2012 for the six tenants was regarded as unsupported. Since the amount of tenant-based rental assistance provided to these six tenants was unsupported, the corresponding administrative fee earned of \$15,751 received by the subgrantee was also unsupported.

Rental Assistance Payments for Units That Did Not Comply With Housing Quality Standards Deficiencies

Tenant- and project-based rental assistance was disbursed for units that did not always comply with HUD’s housing quality standards. Regulations at 24 CFR 574.310(b) provide that units for which rental assistance is paid must meet HUD’s housing quality standards, which require safe and sanitary housing that complies with all applicable State and local housing codes and other requirements.

Inspections conducted of 10 units receiving tenant-based rental assistance from two subgrantees disclosed that 8 units did not comply with one or more of HUD’s housing quality standards, with 7 units exhibiting at least 1 exigent violation requiring correction within 24 hours. In addition, six of the eight failed units had three or more material deficiencies.⁶ The deficiencies encountered during the inspections were as follows:

<u>Deficiency area</u>	<u>Total occurrences</u>	<u>Units affected</u>
Windows	5	2
Doors	5	2
Egress	3	2
Water leaks-damage	5	3
Security	2	1
Fire hazards	2	1
Electrical hazards	27	7
Inoperable stove	1	1
Furnace	2	1
Kitchen-bathroom cabinets	2	1
Wall-ceiling-floor	15	5
Steps-railing hazards	3	2

In response to our inspections, subgrantee officials certified that all material deficiencies had been corrected, thus ensuring that the remaining tenant-based rental assistance of \$54,639 and \$3,825 in administrative fees to be paid for the

⁶ 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.

six tenants during their current certification period would be disbursed for units that complied with HUD's housing quality standards (see appendix C).

In addition, the project-based unit administered as shared housing did not follow housing quality standards regarding space and security. Regulations at 24 CFR 574.310(b)(2)(iii) provide that there should be adequate space and security for each resident and his or her belongings, as well as an acceptable area in which to sleep. Inspection of the project disclosed that two bedrooms shared the same doorway and were separated by a nonpermanent structure functioning as a door. As a result, security was compromised for one tenant. Consequently, the \$14,786 in project-based rental assistance disbursed from July 2009 through June 2011 was ineligible, and the \$14,366 in project-based rental assistance earned by but not paid for the period June 2011 through October 2012 should be deobligated, thus ensuring that the funds are put to better use.

Inadequate Subgrantee Monitoring

City officials had not conducted annual monitoring reviews of two of their six subgrantees and were unable to provide documentation of the results of reviews they said were conducted for the other four subgrantees during our audit period. Regulations at 24 CFR 85.40 provide that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity. In addition, the City's 2011 action plan states that the City's Department of Community Development will make at least one onsite monitoring visit to each subgrantee funded to ensure compliance with fiscal, programmatic, and regulatory controls and requirements.

Not conducting required monitoring reviews increases the risk that subgrantees are not complying with Federal regulations and those deficiencies will continue to go undetected. City officials informed us that they were drafting a subgrantee monitoring handbook and that they had conducted a site visit to one subgrantee at the end of our fieldwork. However, annual monitoring reviews are required for all subgrantees. Therefore, we determined that the grantee's administrative fee of \$42,126, earned from program year 2010 funds, would be put to better use if the grantee strengthens its controls and adequately monitors its subgrantees.

Conclusion

City subgrantees had incorrectly determined and documented tenant eligibility and rental subsidy calculations. We attribute this error to inadequate guidance and monitoring by City officials and the subgrantee's unfamiliarity with HUD

regulations. As a result, HOPWA funds were disbursed for ineligible and incorrectly calculated rental assistance payments, tenants whose eligibility was not adequately supported, and units that failed to meet HUD's housing quality standards.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to

- 2A. Provide support for the deobligation and recovery of the ineligible \$990 housing assistance payment or reimburse the HOPWA program from non-Federal funds.
- 2B. Recertify and properly calculate the rental subsidy for the five⁷ project-based tenants so that the rental subsidy of \$96,868 paid on behalf of these tenants for the period July 2009 through June 2011 is properly supported and the \$71,830 obligated but not yet expended for the period July 2011 through October 2012 will be put to better use.
- 2C. Obtain documentation to support the \$225,021 rental subsidy and \$15,751 in administrative fees paid on behalf of the six tenants whose files lacked adequate documentation of the tenants' eligibility; if adequate support cannot be obtained, officials should reimburse the \$240,772 from non-Federal funds.
- 2D. Strengthen controls to ensure that annual tenant recertifications are conducted as required and that tenants' eligibility and rental subsidies are properly determined and adequately documented.
- 2E. Implement adequate controls to ensure that the six tenant-based units with material deficiencies comply with HUD's housing quality standards, thus ensuring that \$58,464 in housing assistance payments and administrative fees (\$54,639 and \$3,825, respectively) to be earned within the remaining annual certification period represent funds to be put to better use.
- 2F. Reimburse the program for housing assistance payments of \$14,786 paid for an ineligible bedroom in a six-bedroom unit for the period July 2009 through June 2011 and deobligate the \$14,366 budgeted but not disbursed for this unit for the period July 2011 through October 2012, thus ensuring that the funds will be put to better use.
- 2G. Strengthen controls over unit inspection procedures to ensure that all units are inspected annually for compliance with HUD's housing quality standards.

⁷ While the project housed six tenants, we regarded the subsidy for five as unsupported; the sixth is regarded as ineligible, as noted in recommendation 2F, since the unit did not comply with HUD's housing quality standards.

2H. Strengthen controls over subgrantee monitoring to ensure that periodic monitoring is conducted and documented and follow-up is conducted for any required corrective action, thus ensuring that the grantee's administrative fee of \$42,126 obligated but not drawn down for program year 2010 is properly earned, thus ensuring that the funds are put to better use.

Finding 3: Program Implementation Did Not Always Comply With HOPWA Requirements

City officials did not ensure that the HOPWA program was always implemented in accordance with program requirements. Specifically, subgrantee agreements were not always executed, and waiting lists were not efficiently maintained. These conditions occurred because City officials were unfamiliar with HUD regulations and did not establish adequate management controls to provide assurance that HOPWA-funded activities administered directly by the City or through its subgrantees complied with program regulations. Consequently, they could not adequately assure HUD that subgrantee activity costs were for eligible activities and that HOPWA applicants were fairly and consistently selected for assistance.

Subgrantee Agreements Not Executed

City officials were unable to provide executed subgrantee agreements with their six subgrantees for program years 2009 and 2010. Regulations at 24 CFR 85.20(b)(6) provide that accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contracts, and subgrant award documents. Executing a subgrantee agreement ensures that a subgrantee is made aware of applicable HOPWA regulations and provides a basis for the grantee to recover funds expended for ineligible or unsupported costs. City officials noted that subgrantee agreements were executed, but the City's legal department had been unable to provide them. Executed subgrantee agreements would ensure that the subgrantees' responsibilities and the City's and HUD's interest in the \$293,393 obligated but not yet expended is protected.

Waiting List Procedures Not Sufficient

City officials did not maintain a central waiting list for tenant- and project-based rental assistance applicants, but, rather, multiple waiting lists were maintained and were used by three of its six subgrantees that provided tenant- or project-based rental assistance. HUD's Housing Choice Voucher Program Guidebook 7420.10G, chapter 4, provides that Housing Choice Voucher program administrators are responsible for establishing an application and selection process that treats applicants fairly and consistently regarding which applicants should be placed on a waiting list and issued a voucher for rental assistance. While the HOPWA program does not have a similar regulation, maintenance of a waiting list in a similar manner would be reasonable to provide City officials assurance that HOPWA applicants are chosen for assistance in a fair and consistent manner. During our review, one applicant was chosen from one

subgrantee's waiting list while other subgrantees' lists contained eligible applicants certified before that applicant. City officials were unaware of this situation and stated that a central waiting list should be maintained by the City.

Conclusion

City officials did not establish adequate management controls to provide assurance that HOPWA-funded activities administered directly by the City or through its subgrantees complied with program regulations. We attribute these deficiencies to the officials' unfamiliarity with HUD regulations. Consequently, City officials could not adequately assure HUD that subgrantee activity costs were for eligible activities and that HOPWA applicants were fairly and consistently selected for assistance.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to

- 3A. Document or execute agreements with the City's six subgrantees to ensure that the subgrantees' responsibilities and the City's and HUD's interest in the \$293,393 obligated but not expended is protected. If these agreements cannot be documented or executed, the funds should be deobligated, thus ensuring that the funds will be put to better use.
- 3B. Establish procedures to ensure that HOPWA applicants are chosen for assistance in a consistent and equitable manner.

SCOPE AND METHODOLOGY

The audit focused on whether officials of the City established and implemented adequate controls to ensure that HOPWA funds were obligated and expended in accordance with HUD regulations for eligible activities and adequately safeguarded.

To accomplish our objective, we

- Reviewed relevant HOPWA program requirements and applicable Federal regulations to gain an understanding of HOPWA administration requirements.
- Interviewed staff from the HUD Newark, NJ, field office, the City, and its subgrantees to further our understanding of the City's HOPWA program.
- Obtained an understanding of the City's management controls and procedures through reviewing the City's responses to management control questionnaires.
- Obtained an understanding of the management controls of the City's subgrantees through reviewing the subgrantees' responses to management control questionnaires.
- Reviewed the City's program years 2009 and 2010 consolidated annual performance and evaluation reports and action plans for the HOPWA program.
- Reviewed the City's audited financial statements for fiscal years ending June 30, 2009 and 2010, to identify any issues relevant to our audit.
- Reviewed reports from HUD's Integrated Disbursement and Information System to identify the City's disbursement activities. Our assessment of the reliability of the data in these systems was limited to the data sampled, which were reconciled to the County's records.
- Selected a nonstatistical sample of 10 units from each of 2 subgrantees with universes of 37 each based upon increments of 12 from tenant listings in alphabetical order to determine compliance with tenant eligibility requirements and HUD's housing quality standards for tenant-based rental assistance. In addition, we reviewed the universe of six tenant files from a third subgrantee to determine compliance with housing quality standards for project-based rental assistance.
- Reviewed grantee agreements between HUD and the City.
- Reviewed city council resolutions for the City's HOPWA program years 2009 through 2011.
- Reviewed the City's general ledger for its program years 2009 through 2011.

The audit generally covered the period July 1, 2009, through June 30, 2011, and was extended as needed to accomplish our objective. We performed our audit fieldwork from March through September 2012 at the City's Department of Health and Human Services.

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

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in 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:

- The City did not establish or implement adequate financial controls to ensure that HOPWA funds were expended on eligible and supported activities (see finding 1).
- The City did not establish or implement adequate program controls to ensure that subgrantees dispersed HOPWA funds for eligible and supported costs (see finding 2).
- The City did not establish or implement adequate management controls to ensure that the City's HOPWA program was always administered in accordance with HOPWA program requirements and Federal regulations (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A			\$483,502
1C		\$ 17,450	
1D		2,710	
2A	\$990		
2B		96,868	71,830
2C		240,772	
2E			58,464
2F	14,786		14,366
2H			42,126
3A			293,393
	\$15,776	\$357,800	\$963,681

- 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.
- 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. If HUD requires the auditee to (1) deobligate or disburse the \$483,502 not spent, the funds will be available for eligible HOPWA purposes; (2) implement adequate controls for unit inspections, tenant recertification, and subgrantee monitoring, \$186,786 (\$71,830, 58,464, \$14,366, and \$42,126) would be disbursed for eligible rental assistance and earned administrative fees, and (3) execute subgrantee agreements then subgrantees' responsibilities will be documented, thus protecting HUD's interest in the \$293,393.

Appendix B

SCHEDULE OF PROJECT-BASED RENTAL SUBSIDIES OBLIGATED BUT NOT DISBURSED

Monthly period	Project-based subsidy for six tenants	Project-based subsidy for five of six tenants
July 2011	\$ 5,256	\$ 4,380
August 2011	5,256	4,380
September 2011	5,256	4,380
October 2011	5,256	4,380
November 2011	5,256	4,380
December 2011	5,256	4,380
January 2012	5,466	4,555
February 2012	5,466	4,555
March 2012	5,466	4,555
April 2012	5,466	4,555
May 2012	5,466	4,555
June 2012	5,466	4,555
July 2012	5,466	4,555
August 2012	5,466	4,555
September 2012	5,466	4,555
October 2012	5,466	4,555
		<u>\$ 71,830</u>

Appendix C

SCHEDULE OF TENANT-BASED RENTAL SUBSIDIES TO BE PAID BEFORE TENANTS' RECERTIFICATION

Tenant	Monthly HAP* amount	Months remaining to next recertification	Funds to be paid before next recertification
1	\$947	10	\$9,470
2	670	3	2,010
3	802	12	9,624
4	1,500	6	9,000
5	\$1,201	11	13,211
	\$1,193	1	1,193
6	921	11	<u>10,131</u>
		HAP total	\$54,639
	7 percent administrative fee		<u>3,825</u>
		Total	<u>\$58,464</u>

* Housing assistance payment

Appendix D

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

CITY OF PATERSON
DEPARTMENT OF HEALTH
& HUMAN SERVICES
DONNA R. NELSON-IVY
DIRECTOR
RYAN WHITE & HOPWA DIVISION
MILAGROS IZQUIERDO
DIVISION DIRECTOR



125 ELLISON STREET
1ST FLOOR
PATERSON, NJ 07505
PHONE: (973) 321-1336
FAX: (973) 321-1225

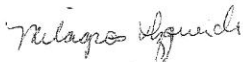
February 08, 2013

Mr. Edward Moore
Regional Inspector General Audit
New York/New Jersey Region
26 Federal Plaza, Room 3430
New York, NY 10278

Dear Mr. Moore,

Attached please find the City of Paterson's response/ comments to the HUD Audit of Housing Opportunity for Persons with AIDS program.

Sincerely,



Milagros Izquierdo
Division Director, Ryan White and HOPWA

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 2

Comment 2

The City of Paterson

February 7, 2013

Response to HUD Audit Recommendation

Housing and Urban Development:

Response to recommendations page 7:

Finding 1:

1a. As of today all funds for Grant years -2007 (\$80,101), 2008 (\$14,763) and 2009 (\$388,638) have been expended. The confusion was due to several open purchase orders from previous years that were not cancelled by the previous administration. The same scenario continued with grant year 2008. Funds for FY-2009 were used within the allotted time.

We are currently working and reconciling with accounts and control to make the necessary adjustments and corrections for the grant years 2007 and 2008.

Also in our investigation it was discovered that during our staffing transition the incorrect purchase order numbers were used however correct activity codes were used.

1b. The administrative staff will be provided with a chart of activity codes, and purchase order numbers to ensure funds under a particular program year are expended in a timely manner. This chart will be updated on an as needed basis, reflecting designated grant year information. Reconciliation of all purchase orders will be closed out within the appropriate grant year.

1c. Following this corrective action report we have entered into conversation with accounts and control to correct the allocation process that relates to charges from RDE, WB Mason, Carpet Workshop and UPS in the amount of \$17,450.

We have also initiated conversations with accounts and control to properly adjust the problem with a journal entry process .

1d. Because the vendors did not provide us with the required documentation of the \$2,710 (\$210, \$260, and \$2,240) reimbursement, we have requested detailed itemized invoices to correct this situation. The vendors have been ask to respond by a targeted date.

As of this date we have been unsuccessful in locating the voucher \$260 travel expense. We will reach out to accounts and control to continue assisting us in Research process.

The 3% Administrative funds that are allocated to the HOPWA grant will be used for grant years 2010, 2011 and 2012 and are currently applied to the salary of the HOPWA administrative staff person.

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

1e. The process of strengthening controls has been implemented to ensure that all expenses are properly supported and correctly charged to the appropriated accounts. All vendors have been notified that they are required to submit itemized invoices to reflect the breakdown of charges on a monthly basis.

Comment 2

1f. Moving forward, we are working with accounts and control to make the necessary adjustments and corrections for grant years 2007, 2008, 2009 and 2010. The mechanism that will be used by accounts and control to establish and ensure that all obligated balances are periodically reconciled to the annual HOPWA award amount, will start with the reconciliation of previous years. All purchase orders will be closed out for grant years 2007, 2008, 2009 and 2010 and will continue the process to the current grant year.

As previously mentioned, the administrative staff will be provided with a chart of activity codes, and purchase order numbers for referencing assigned amounts to providers. This chart will be updated on an as needed basis, reflecting the grant year information. Reconciliation of all purchase orders will be closed out within the grant year.

Comment 3

1g. The 3% Administrative allocation for the City of Paterson will be used for the HOPWA administrative staff. If there are changes that need to be made on the 3% administrative allocation to the City of Paterson, the administration will seek authorization to do so and document changes within the corresponding grant year.

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 4

Comment 5

Comment 6

Comment 7

Comment 2

Comment 8

Comment 2

Response to recommendations page 12:

Finding 2:

2a. Attached please find a copy of the \$990 cancelled check in question. (see attachment)

2b. The administration has requested assistance from the Paterson Housing Authority for proper recertification and calculations as it relates to rental assistance, for Project Based Housing. HUD guidelines and definitions will be incorporated in this process.

The calculations from Project Based Housing are currently being reviewed to reflect the calculations used by HUD. Calculations will be determined by using the 30% of the HOPWA resident rental income as identified on the HUD website.

2c. The six tenant files that were reviewed in question have since been updated with supportive documentation. The files for the Project Based Housing programs at Harrison House are current, updated and are kept separately with the HOPWA case manager.

2d. As previously stated the process of strengthening controls has been implemented to ensure that all expenses are properly supported and correctly charged to the appropriated accounts. All vendors have been notified that they are required to submit itemized invoices to reflect the breakdown of charges on a monthly basis.

As it relates to the eligibility and rental subsidies redetermination documents will be updated and kept in the tenant's files on an annual basis. Proper documentation will be requested to reflect income eligibility on an ongoing basis.

2e. Adequate controls have been implemented to ensure compliance with HUD's housing quality standards. The director for Buddies of NJ and Harrison house has since corrected all deficiencies. Site visits for the Project Based Housing units have been initiated and will continue quarterly.

2f. Due to the inadequate supervision under the previous administration the six bedroom tenant units in question did not meet the HUD housing standard as per the HUD auditor's observation.

The current administration has since corrected the deficiencies with the Project Based Housing units, ensuring that the six bedroom units are in compliance with HUD's housing regulations.

2g. The current administration has strengthen controls over unit inspection and procedures to ensure that all units are inspected annually to comply HUD's housing quality standards.

Site visits were conducted for grant year 2010, with a follow up on a quarterly basis for the Housing Authorities in Bergen and Passaic Counties, the same will apply to Harrison House.

The HOPWA administration staff is reviewing the possibility of obtaining certification and training with HQS and NAHRO.

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

2h. As previously stated, site visits were conducted for grant year 2010, and will continue on a follow up quarterly basis for the Housing Authorities in Bergen and Passaic Counties as well as the Harrison House. The four sub-grantees that are providing (STRMU) subservices will be monitored on an annual basis. As a result the site visit monitoring controls have been implemented for all six of the HOPWA funded agencies under the City of Paterson's HOPWA administration.

Response to recommendations page 15:

Finding 3:

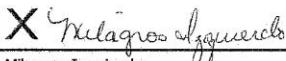
Comment 9

3a. The contracts for grant year 2010 have been fully executed, and were review by the auditor during our discussion session. Contracts for grant year 2011 are expected to be fully executed by the end of Friday February 8th, 2013 as per our Legal Department. The HOPWA administration is currently working to complete contracts for 2012 grant year.

The HOPWA administrative office has expressed to our Legal Department the urgency of providing executed contracts within a timely manner. We have also explained to our Legal department the consequences that the City of Paterson would face if we are not in compliance with the 3 year time frame for the dissemination of funds. As per our request, the HUD representative provided assistance to this office.

Comment 2

3b. The HOPWA administration has established procedures to ensure that the waiting list process is conducted in a consistent, equitable proper and fair manner throughout both Bergen and Passaic Counties. The HOPWA committee is working with the HOPWA administration on priorities and eligibility requirements. The HUD Rental Assistance Guide will be our primary tool of reference.

X 

Milagros Izquierdo
City of Paterson, Division Director, HOPWA Pr...

AUDITEE COMMENTS AND OIG'S EVALUATION

OIG Evaluation of Auditee Comments

- Comment 1** Grantee officials stated that they have reconciled their general ledger with IDIS and have determined that all funds from program years 2007, 2008 and 2009 have been expended. The action is responsive to the report recommendation and a determination that the additional expenditures are in compliance with HOPWA program regulations will need to be made by HUD during the audit resolution process.
- Comment 2** Grantee officials' planned action is responsive to the report recommendation and HUD will need to verify the actions taken during the audit resolution process.
- Comment 3** Grantee officials stated that they plan to use the three percent administrative cost allocation for the City of Paterson for HOPWA administrative staff. This action is responsive to the report recommendation; however, if other grantee administrative costs are allocated to the HOPWA program, the grantee would be required to develop a cost allocation plan to ensure that any indirect costs and salary costs of employees working on multiple programs are reasonably allocated to the HOPWA program.
- Comment 4** While grantee officials provided a voided check for \$990 payable to the unit's owner, the grantee's records documented that the \$990 was paid to the subgrantee and that the grantee was reimbursed from IDIS for the same amount. Therefore, the \$990 remains unsupported until the grantee provides documentation that the \$990 was reimbursed to the grantee and that the grantee credited its line of credit in IDIS.
- Comment 5** Grantee officials have requested documentation from the subgrantee to determine whether tenant certifications and subsidy calculations complied with HUD guidelines; verification of actions taken will be resolved during the audit resolution process with HUD.
- Comment 6** Grantee officials stated that files for six tenants reviewed that received project-based rental assistance have been updated with applicable supporting documentation. However, this recommendation relates to the six tenant files reviewed that received tenant-based rental assistance. Therefore, grantee officials need to provide HUD documentation to address this recommendation during the audit resolution process.
- Comment 7** The grantee will need to document that controls were strengthened that will address the deficiencies noted in the six tenant-based rental units.

Comment 8 Grantee officials have ensured that the housing quality standard deficiencies have been corrected; therefore HUD officials will need to confirm this during the audit resolution process.

Comment 9 During the exit conference, grantee officials provided subgrantee agreements for their six subgrantees for program year 2010. However, the agreements were executed on October 12, 2012, which is subsequent to the February 16, 2012 date that 2010 HOPWA funds were initially drawdown. Thus, funds were drawdown prior to grantee officials ensuring that subgrantees' responsibilities and the City's and HUD's interest was protected. However, since these agreements have since been executed, those assurances have been obtained, thus ensuring that \$293,393 represents funds to be put to better use.