



Issue Date
June 30, 2008
Audit Report Number
2008-NY-1009

TO: Edward De Paula, Director, Office of Public Housing, 2FPH

FROM: *Edgar Moore*  
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: Union County, Elizabeth, New Jersey, Had Weaknesses in Its Housing Choice Voucher Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited Union County's (County) Housing Choice Voucher program, which is administered by its Division of Planning and Community Development. We selected the County because the Newark field office's risk rating classified the County as a below standard performer due to inadequate administration and technical knowledge of staff, tenant complaints, and the County contracted out the administration of its Housing Choice Voucher program to a consultant without U.S. Department of Housing and Urban Development (HUD) approval.

Our audit objectives were to determine whether the County's (1) Housing Choice Voucher program units met housing quality standards; (2) costs charged to the Housing Choice Voucher program were supported and eligible; and (3) controls over the Housing Choice Voucher program, including monitoring of the consultant administering the program, were adequate.

### **What We Found**

Our inspection of 58 Section 8 units found that 42 units (72 percent) did not meet minimum housing quality standards. Of the 42 units, 21 were in

material noncompliance with standards. As a result HUD made housing assistance payments for units that did not meet housing quality standards. We estimate that over the next year, HUD will make housing assistance payments of \$762,000 for units in material noncompliance with the standards.

The County's financial and program controls over its Housing Choice Voucher program were inadequate. Specifically, voucher funds that were transferred to other programs, and salary cost that was charged to the program were unsupported and/or ineligible. As a result, \$83,476 in transfers of funds and salary costs charged are questioned pending an eligibility determination by HUD, while another \$21,862 in transfers and salary costs are ineligible. In addition, the County did not document whether it monitored its consultant that administered its Housing Choice Voucher program. Accordingly, the County could not ensure that voucher funds were used efficiently and effectively or met program objectives.

### **What We Recommend**

We recommend that the Director of HUD's New Jersey Office of Public Housing instruct the County to develop and implement procedures (1) to ensure that units meet housing quality standards to prevent an estimated \$762,000 from being spent on units that are in material noncompliance, (2) for allocating and charging costs to the Housing Choice Voucher program to include developing a cost allocation plan for salaries, (3) to ensure that transfers from the Housing Choice Voucher program to other programs are in accordance with regulations, and (4) to ensure that monitoring of the consultant that administers the program is conducted and documented.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee Response**

We provided a draft report to County officials on June 12, 2008, and requested their responses by June 20, 2008. We discussed the results of our review during the audit and at an exit conference on June 20, 2008. County officials provided written comments on June 20, 2008. They generally concurred with the draft report findings but had some concerns about language. The complete text of the County's response, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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Union County's (County) Division of Planning and Community Development is located at 10 Elizabethtown Plaza, Elizabeth, New Jersey. The Division of Planning and Community Development consists of four bureaus, which include the Bureaus of Housing, Community Development, Transportation Planning, and Land and Facilities Planning. The Bureau of Housing is responsible for the Housing Choice Voucher program. However, the administration of the Housing Choice Voucher program has been contracted out to a consultant, Development Directions, LLC (Development Directions).

As of March 2008, the U.S. Department of Housing and Urban Development's (HUD) Public Housing Information Center (PIC) system showed that the County was issued 371 Section 8 vouchers and received more than \$2.9 million and \$3 million in Section 8 funding for fiscal years 2006 and 2007, respectively. The County's Housing Choice Voucher program's fiscal year runs from January 1 through December 31.

Our audit objectives were to determine whether the County's (1) Housing Choice Voucher program units met housing quality standards; (2) costs charged to the Housing Choice Voucher program were supported and eligible; and (3) controls over the Housing Choice Voucher program, including monitoring of the consultant administering the program, were adequate.

## RESULTS OF AUDIT

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### Finding 1: Some Housing Choice Voucher Program Units Did Not Meet Housing Quality Standards

Our inspection of 58 units showed that 42 units (72 percent) did not meet minimum housing quality standards. Of the 42 units, 21 were in material noncompliance. Projecting the results of the statistical sample to the population indicates that at least 239 units did not meet minimum housing quality standards, and at least 100 units were in material noncompliance with the standards. This noncompliance occurred because management did not always follow its administrative plan and HUD regulations to ensure that units met minimum housing quality standards. As a result, housing assistance payments were made for units that did not meet HUD's standards.

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#### **Some Units Not in Compliance with HUD Standards**

County officials did not implement an effective administrative plan to ensure that its consultant who administers the Section 8 Housing Choice Voucher Program (Development Directions) complied with HUD requirements at all times. As a result, the County made housing assistance payments for units that did not meet the standards. We estimate that over the next year, HUD will pay \$762,000 in housing assistance for units in material noncompliance with housing quality standards if the County's consultant does not implement adequate procedures.

We inspected a statistical sample of 58 units accompanied by a HUD appraiser and a Development Directions inspector or other staff member when the inspector was not available. Our inspection of 58 units found that 42 units (72 percent) did not meet minimum housing quality standards, and we identified 241 deficiencies. Of the 42 units, 21 were in material noncompliance with the standards. They contained 83 deficiencies that were significant enough to materially fail the units.

We ranked all units according to severity from worst to best. We determined that materially noncompliant units are those units above the cut off line that, at a minimum, included deficiencies that existed at the Authority's last inspection. Other factors that we used to determine the severity of the units' conditions included whether children, elderly, or disabled tenants lived in the unit and whether the tenants caused the damage.

The deficiencies noted were not identified by the Development Directions inspectors during their last inspections and some appear to have resulted from faulty maintenance. Further, the noncompliance occurred because the inspector failed to follow the County’s administrative plan to ensure that all units met minimum housing quality standards and all inspections complied with HUD requirements.

Regulations at 24 CFR [*Code of Federal Regulations*] 982.401 provide performance and acceptability standards that assisted units must meet to comply with HUD housing quality standards. In addition, Section 982.54 provides that the authority must adopt a written administrative plan that establishes local policies for the administration of the program in accordance with HUD requirements. The plan should include procedural guidelines and performance standards for conducting required housing quality standard inspections. Section 982.405 provides that the authority must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the housing quality standards (HQS) and further provides that the authority must conduct supervisory quality control inspections.

Although the required number of supervisory quality control inspections had been performed, they were not effective in ensuring that all inspections were conducted in a manner that ensured that all units met housing quality standards. For example the consultant’s quality control inspections were conducted at the end of the year instead of periodically throughout the year. By doing this, if errors were noted with how inspectors conduct their inspections, these errors would not be timely identified or corrected until years end, when the supervisory inspections are performed. The following table lists the most frequently occurring deficiencies for all 58 units inspected.

<b>Deficiencies</b>	<b># of deficiencies</b>	<b># of units affected</b>
Walls, ceilings, floors	35	15
Doors	28	16
Electrical hazards	13	11
Windows	12	10

The deficiencies noted the most were those concerning the units’ walls, ceilings, and floors. Other deficiencies included door security issues, electrical hazards, and window problems.

## Walls, Ceilings, and Floors

Fifteen of the units inspected had a total of 35 deficiencies related to the walls, ceilings, and floors. The deficiencies noted included walls that contained cracks, holes, and peeling paint; ceilings that were bulging and contained holes; and floors that were unlevel and uneven and contained holes, tears, cracked tiles, and lifted linoleum. The following pictures provide examples of some of the deficiencies.



During an inspection of sample unit #8 conducted on January 30, 2008, this unit's bathroom had a buckling and bulging ceiling.



During an inspection of sample unit # 29 conducted on February 4, 2008, this unit's bathroom had what appears to be faulty ceiling repair work in



the shower area as evidenced by the striped stick placed in the hole.



During an inspection of sample unit #51 conducted on February 12, 2008, the rear center bedroom of this unit had several cracks in the ceiling.

### **Unsecure Doors/Windows**

Twenty-six units inspected had 40 deficiencies related to the doors and windows. Some examples of the deficiencies noted were that doors had missing notch pins, split doorframes, dead bolts (with an interior key) and some entrance doors were hollow. Windows contained fixed bars and were blocked; and window frames needed repair. Many of these deficiencies impacted the security and/or safety of the tenants.

The following pictures provide examples of these deficiencies.





During an inspection of sample unit #34 conducted on February 5, 2008, this unit's main entry door had the hinges and hinge pins on the exterior of the door, and a split frame, all of which compromised the security of the unit.



During an inspection of sample unit #11 conducted on January 30, 2008, this unit's main entry door was split, and it had a double key lock, which could become a safety issue during a fire.

### Electrical Hazards

Eleven of the units inspected had 13 deficiencies related to electrical hazards. The deficiencies noted included inoperative GFI outlets, exposed wiring, hot or reverse outlets, and faulty electrical sockets. The following pictures provide examples of these deficiencies.



During an inspection of sample unit #29 conducted on February 4, 2008, this unit's bedroom had an electrical outlet with a missing face plate, which can be hazardous.



During an inspection of sample unit # 26 conducted on February 04, 2008, this unit's living room contain a socket with faulty electrical problems for which the tenant states caused sparks when an item is plugged into it.

## Conclusion

The County lacked adequate procedures and controls to ensure that all of its Housing Choice Voucher program units met HUD's and its housing quality standard requirements. As a result, 42 out of 58 units inspected failed minimum housing quality standards, and 21 of the 42 units materially failed standards thus tenants lived in units that materially did not meet housing quality standards. This was caused because the consultant's inspectors did not always follow its administrative plan and HUD regulations to ensure that units met minimum housing quality standards. Accordingly, management must place greater emphasis on the importance of housing quality standards and strengthen policies and procedures to ensure that it complies with HUD requirements to give tenants the opportunity to live in decent, safe, and sanitary housing. By making the necessary improvements, the County will ensure that an estimated \$762,000 in housing choice voucher funds will not be spent on housing units that materially do not meet housing quality standards.

## Recommendations

We recommend that the Director of HUD's New Jersey Office of Public Housing require the County to

- 1A. Inspect the 42 units that did not meet minimum housing quality standards to verify that landlords took appropriate corrective actions so that units meet the standards. If appropriate action was not taken, the County should abate the rents or terminate the housing assistance payments to the landlords.
- 1B. Develop procedures to ensure that quality control inspections are performed periodically throughout the year to ensure that HQS inspections are conducted in accordance with regulations and the administrative plan.
- 1C. Develop and implement procedures to ensure that units meet housing quality standards to prevent an estimated \$762,000 from being spent on units that are in material noncompliance with HUD standards.

## Finding 2: Financial and Program Controls Were Inadequate

The County's financial and program controls over its Housing Choice Voucher program were inadequate. Specifically, voucher funds that were transferred to other programs, and salary cost that was charged to the program were unsupported and/or ineligible. As a result, \$83,476 in transfers of funds and salary costs charged are questioned pending an eligibility determination by HUD, while another \$21,862 in transfers and salary costs are ineligible. We attribute these conditions to the County's unfamiliarity with regulations and its failure to ensure that adequate documentation is maintained to support the reasonableness and validity of all expenses. In addition, the County did not document whether it monitored its consultant that administered its Housing Choice Voucher program. Accordingly, the County could not ensure that voucher funds were used efficiently and effectively or met program objectives.

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### **Unsupported and Ineligible Transfers of Funds**

In May 2006, approximately \$58,438 was transferred from the Housing Choice Voucher program to the CDBG program for the cost of administering the Housing Choice Voucher program in 2005. A County official believed that the County was entitled to the funds as a profit for administering the Housing Choice Voucher program. However, there was inadequate documentation to support that the County's CDBG staff was involved with the administration of the voucher program in 2005. Especially since the administration of the program was contracted out to a consultant.

In addition, in May 2006, a total of \$20,601 in "Section 8 recapture fraud money" was transferred from the rental assistance account to the Community Development Block Grant (CDBG) program. According to Public and Indian Housing (PIH) Notice 2006-03, Section 8 recapture funds can only be used for activities related to providing assistance under the Housing Choice Voucher program. Since, the County did not maintain documentation to show that these funds were used for activities related to providing assistance under the Housing Choice Voucher program; these funds are ineligible and should be reimbursed to the Housing Choice Voucher program.

### **Unsupported and Ineligible Salary Costs**

Costs charged to the Housing Choice Voucher program were not always properly supported or eligible. From January 2006 to June 2007, the

salaries for two County employees were charged to the Housing Choice Voucher program based on estimated time spent on the program. From January to December 2006, the amount charged to the Housing Choice Voucher program was \$16,343. From January 2007 to June 2007, the amount charged to the Housing Choice Voucher program was \$8,695. However, the County did not maintain supporting documentation for the methodology used to charge the two employees' salaries to the Housing Choice Voucher program. County officials believed that budgeted costs could be used to allocate the costs to the program. However, since most of the administration of the Housing Choice Voucher program is done by the consultant and the two County employees worked on other programs besides the Housing Choice Voucher program we could not determine if these costs were reasonable without documentation of the time these employees spent on the program.

The consolidated annual contributions contract states that "program receipts may only be used to pay program expenditures." In addition, regulations at 24 CFR 85.20 require the costs to be supported by source documents such as cancelled checks, paid bills, payrolls, and time and attendance records. These items were not provided to support costs related to the voucher program. Therefore, the County could not ensure that salary costs were allowable and supported. In addition to maintaining time distribution record, the County should develop a cost allocation plan and update it at least annually to ensure that the costs charged the Housing Choice Voucher Program are reasonable. Therefore, \$25,038 in salaries is considered unsupported pending a determination as to the reasonableness of the costs by HUD.

In addition, a duplicate charge of \$1,261 for salary costs was made in March 2007. These costs were for partial salaries for December 2006 that had already been charged to the program. Therefore, the \$1,261 was ineligible because it had already been charged to the program and should therefore be repaid to the Housing Choice Voucher program.

### **Monitoring of the Consultant was Not Documented**

From January 2006 to June 2007, the County did not document monitoring of its consultant that administered its Housing Choice Voucher program, Development Directions. According to the County's "Internal Control Procedures for the Section 8 Program," the Division of Planning and Community Development is required to "monitor the consultant on a monthly basis for programmatic and financial review, to enable the County to have better control over the consultant and the program." Accordingly, by not documenting the monitoring of its consultant, the County could not assure HUD that voucher funds were used efficiently

and effectively or met Housing Choice Voucher program objectives. This lack of monitoring may have contributed to the units not meeting housing quality standards, as discussed in finding 1.

## Conclusion

Inadequate financial and program controls led to the County transferring voucher funds to other programs, and charging salary costs to the voucher program that were unsupported and/or ineligible. As a result, \$83,476 in transfers of funds and salary costs charged are questioned pending an eligibility determination by HUD, while another \$21,862 in transfers and salary costs are ineligible. We attribute these conditions to the County's unfamiliarity with regulations and its failure to ensure that adequate documentation is maintained to support the reasonableness and validity of all expenses. Also, the County could not assure HUD that its consultant efficiently and effectively administered the Housing Choice Voucher program since there was no documented monitoring of the consultant from January 2006 to June 2007.

## Recommendations

We recommend that the Director of HUD's New Jersey Office of Public Housing require the County to

- 2A. Provide documentation to support the eligibility of \$58,438 transferred to the CDBG program and repay any amount determined to be ineligible to the Housing Choice Voucher program.
- 2B. Repay \$20,601 to the Housing Choice Voucher program related to Section 8 fraud recovery funds ineligibly transferred to the Community Development Block Grant (CDBG) program
- 2C. Establish controls to ensure that transfers of funds from the Housing Choice Voucher program to other programs are in accordance with regulations.
- 2D. Provide documentation to support the eligibility of the \$25,038 in unsupported salary costs charged to the Housing Choice Voucher program and repay any amount determined to be ineligible
- 2E. Develop procedures that will ensure the use of time distribution records when employees work on more than one program or activity.

- 2F. Develop a cost allocation plan and update it at least annually to ensure that the costs charged to the Housing Choice Voucher Program are reasonable.
- 2G. Reimburse the Housing Choice Voucher program for \$1,261 in ineligible duplicate salary charges from nonfederal funds.
- 2H. Develop and implement procedures to ensure that monitoring of its consultant is conducted and documented.



## SCOPE AND METHODOLOGY

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To accomplish our audit objectives, we reviewed applicable laws, regulations, and other HUD program requirements. We analyzed the County's administrative plan, contract agreements between the County and Development Directions, and procurement policies related to selecting the consultant. We also reviewed independent public accountant reports, board minutes and resolutions, and interviewed HUD, County, and Development Directions staff. We reviewed disbursements and transfers of funds from January 1, 2006, through June 30, 2007 to determine if the costs charged to the Housing Choice Voucher program were reasonable and supported. We also reviewed the County's procedures and related documentation for monitoring its consultant.

We performed limited tests of the reliability of the data in the December 2007 housing assistance payment register. We used computer-assisted audit techniques to validate the data by identifying and investigating duplicate payments, tenants, and landlords and verifying units having \$0 subsidy payments. We also verified that the housing assistance payment register was accurate, including the number of recipients and the housing assistance provided. We then selected a statistical sample of units and conducted inspections with a HUD appraiser and the Development Directions inspector or other staff member when the inspector was not available.

We used a statistical software program to select a random sample of 58 of 377 units based on the December 2007 housing assistance payment register. Our sampling criteria used a 90 percent confidence level, 50 percent estimated error rate, and precision of plus or minus approximately 10 percent. We performed unit inspections from January 29 to February 13, 2008.

Our sample results determined that 21 of the 58 units (36 percent) materially failed to meet HUD's housing quality standards.

Projecting the results of the 21 units that were in material noncompliance with housing quality standards to the population yields the following:

The most conservative statistical projection or lower limit is that 100 units were in material noncompliance with housing quality standards (26.66 percent x 377<sup>1</sup> units).

The December 2007 housing assistance payment register showed that the average monthly housing assistance payment was \$635.

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<sup>1</sup> There were 384 units (369 units plus 15 port-ins) with active tenants. Of the 384 units, we excluded seven units because they were ported out to other housing authorities. The remaining 377 units represented the total current population of housing choice voucher units.

Using the lower limit of the estimate of the number of units and the average monthly housing assistance payment, we estimate that the County will annually spend at least \$762,000 (100 units x \$635 average payment x 12 months) for units that are in material noncompliance with housing quality standards. This estimate is presented solely to demonstrate the annual amount of program funds that could be saved or put to better use on units that will now meet the standards if the County implements our recommendations. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

Units were in material noncompliance with housing quality standards if deficiencies were in existence at the time of the last inspection and/or children, elderly, and/or disabled tenants were living in the units. Other significant deficiencies were those that (1) had existed for an extended period, (2) were not noted in a prior inspection report, and/or (3) resulted from deferred maintenance that caused the unit to fail. Another factor considered was whether tenants caused the deficiencies.

We conducted our audit work from September 2007 through March 2008 at the following locations: Development Directions, Rahway, New Jersey, and the County's Division of Planning and Community Development, Elizabeth, New Jersey. Our audit covered the period January 1, 2006, through June 30, 2007.

We performed our review in accordance with generally accepted government auditing standards and included tests of management controls that we considered necessary.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance

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## Relevant Internal Controls

We determined 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.
- 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.
- 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 assets – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant Weaknesses

Based on our review, the following items are significant weaknesses:

- (1) The County did not have adequate controls over program operations to ensure that all units met minimum housing quality standards (see finding 1).
- (2) The County did not have adequate controls over compliance with laws and regulations and safeguarding assets to ensure that all costs charged to the Housing Choice Voucher program were supported and eligible. Also, the County did not document whether it had followed its established procedures to monitor the contractor that administered its Housing Choice Voucher program to ensure that the program was administered efficiently and effectively (see finding 2).

## APPENDIXES

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### Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1B			\$762,000
2A		\$58,438	
2B	\$20,601		
2D		\$25,038	
2E	<u>\$1,261</u>		
Total	\$21,862	<u>\$83,476</u>	<u>\$762,000</u>


- 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 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the County implements our recommendations, it will cease to incur Section 8 costs for units that are in material non-compliance with housing quality standards and will expend those funds for units that meet HUD's housing quality standards. Once the County successfully implements its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit. The reported amount does not reflect any offsetting costs to implement the recommendation, but we do not believe these costs to be material.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

  
**COUNTY OF UNION**  
DEPARTMENT OF PARKS & COMMUNITY RENEWAL  
*Alfred J. Faella, Director*

June 18, 2008

<b>BOARD OF CHOSEN FREEHOLDERS</b> <hr/> <b>ANGEL G. ESTRADA</b> <i>Chairman</i> <b>ALEXANDER MIRABELLA</b> <i>Vice Chairman</i> <b>CHESTER HOLMES</b> <b>BETTE JANE KOWALSKI</b> <b>RICK PROCTOR</b> <b>DEBORAH P. SCANLON</b> <b>DANIEL P. SULLIVAN</b> <b>RAYLAND VAN BLAKE</b> <b>NANCY WARD</b>  <b>GEORGE W. DEVANNEY</b> <i>County Manager</i> <b>M. ELIZABETH GENIEVICH,</b> <i>C.M.C., M.P.A.</i> <i>Deputy County Manager/ Director of Administrative Services</i> <b>ROBERT E. BARRY, ESQ.</b> <i>County Counsel</i> <b>NICOLE L. DJRADO,</b> <i>R.M.C., M.P.A.</i> <i>Clerk of the Board</i>  <b>STEVEN H. MERMAN, ESQ.</b> <i>Division Director</i>	<p>Mr. Edgar Moore Regional Inspector General for Audit US Dept. of Housing and Urban Development 26 Federal Plaza, Room 3430 New York, New York 10278-0068</p> <p>Re: Union County Section 8 Draft Audit</p> <p>Dear Mr. Moore:</p> <p>Please accept this correspondence in response to the Union County Section 8 Draft Audit dated June 12, 2008. In this letter I will address some of the concerns that have been raised because of some of the language used within the audit report. I will also add our specific responses to the recommendations made as a result of the audit findings.</p> <p>Initially, at the entrance conference we were assured by your staff that we were not being audited, but were part of a survey that was being conducted. It must be noted that the County of Union was not aware of a risk rating by the Newark Field Office. In fact, pursuant to the SEMAP report received for the Fiscal Year 2006, (the time of this audit) the overall performance rating was "standard". Secondly, we were not made aware of any specific tenant complaints. Finally, to my knowledge there is no HUD requirement that our selected consultant receive HUD approval. This consultant, Development Directions, LLC, has been the County's consultant since 2001 and took over the program from a prior consultant. It was never previously required by HUD that the County have the consultant approved. We are therefore requesting that the language contained in the 1<sup>st</sup> paragraph of the highlights be amended to reflect the facts as set forth above.</p> <p>As to the issues concerning the statement contained in the Audit Report that "some Housing Choice Voucher program units do not meet housing quality standards", we must disagree with the characterization of these deficiencies and conclusions of finding #1, on page 11 of the draft report that, "Tenants lived in units that were not decent, safe and sanitary" for the reasons to be set forth below.</p>
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*Administration Building Elizabethtown Plaza Elizabeth, NJ 07207 (908)527-4229 fax(908)352-3980*  
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Comment 1

Comment 2


## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

Comment 2



It must be recognized that the program is not the owner of these properties, as this is solely a voucher program. It is not alleged that the program failed to inspect units on an annual basis, as required. The program is an active one administering 371 vouchers, which provide housing assistance throughout the County of Union which encompasses 21 individual municipalities. It would be impossible to be aware of all deficiencies, especially if they were caused by the tenant during the course of the tenancy.

Comment 2

The County acknowledges that a portion of the units inspected had deficiencies as noted in the table on page 6. This specific deficiencies involved 1) cosmetic issues of cracks in walls, ceilings and floors, 2) doors, 3) electrical hazards and 4) windows. None of these deficiencies in any way relate to the sanitary facilities or condition. In the first instance, in none of the units reviewed was there a finding of any local health code or building code violation. Secondly, in all of the units cited were there any deficiencies noted with regard to the sanitary facilities i.e., all bathrooms and water supplies were functioning. The HQS specifically requires 3 standards for sanitary facilities and these are

- 1) Unit must have sanitary facilities.
- 2) Sanitary facilities must be in proper operating condition and adequate for personal cleanliness and disposal of house waste.
- 3) Sanitary facilities must be usable in privacy.

Comment 2

Since none of these deficiencies relate to the Sanitary conditions of the units in question, we must object to the use of the phrase "Tenants lived in units that were not decent, safe and sanitary" in the audit report because we believe that it is a mischaracterization of the facts. We would propose removing said language and replacing it with following:

"Tenants lived in units that contained Housing Quality Standard deficiencies."

Comment 2

We also request that this language be used instead of the terminology used through out the audit referring to "safe decent and sanitary housing" be amended in the same manner.

Comment 3

Additionally, we must dispute the hypothesis that as a result of the deficiencies cited, this would lead to an estimated \$762,000.00 being spent on units that are in material non-compliance with HUD standards. As stated earlier, the units are owned by individual landlords. The housing stock in the County of Union is aging and in constant need of renovation and repair. To assume that additional units will have similar deficiencies appears to be



## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

Comment 3

inconsistent with these facts. We would suggest that instead of placing an estimated dollar amount that it would be appropriate to indicate that "a percentage of the Section 8 vouchers were spent on units that had HQS deficiencies." And further any reference to the sum of \$762,000.00, are removed from the draft audit. Specifically in recommendation 1C, we would propose the following Language "Develop and implement procedures to ensure that Housing Quality Standards are meet and insuring the proper expenditure of Section 8 funds.

Comment 4

Turning to the issues raised with regard to Finding Number 2 of the Draft Audit, it is our position for the reasons stated in the audit that the sums identified in recommendation 2B should be treated as "Unsupported" expenditures as opposed to "Ineligible" expenditures. The underlying basis for this is that the recaptured funds, just like the funds referred to in recommendation 2A, were used to reimburse the County for expenses related to the administration of the Sec. 8 Program.

Thank you for the opportunity to provide you with our thoughts and comments on this Draft Audit Report. We look forward to discussing it further at the Exit Conference scheduled for June 20, 2008 at 2:00 PM.

Respectfully Yours;



Steven H. Merman, Director  
Division of Planning & Community Development

SHM/gm

cc: Joseph Vizer, Assistant Regional Inspector General for Audit  
Alfred J. Faella, Dir. Dept. of Parks and Community Renewal


# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

**Comment 5**



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**COUNTY OF UNION**

**Response to Finding # 1**

The County has undertaken to have all the HQ5 deficiencies corrected. Re-inspections were completed and all units, based on those re-inspections are in compliance with HQ5 standards. The County and consultant will work on procedures to be placed in the PHA Plan to periodically inspect the units throughout the year instead of only at the end of the lease period. Those steps should insure that the deficiencies are avoided and corrected in a timely manner which would further insure the appropriate expenditure of Section 8 funding.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



## COUNTY OF UNION

### Response to Finding #2

As a result of the audit, several procedures within the County have been implemented to insure that in the future all expenses charged to the Section 8 grant are fully supported.

**Comment 5**

It is the position of the County that all expenses charged to the grant were eligible costs, although no documentation can be applied to support these costs. The County of Union takes the position that it is entitled to indirect costs and reimbursement for salaries and fringe. The issue as to support for these costs will be and has been addressed by the formulation of a cost allocation plan which specifically sets forth the sources for funding, including current year allocation and any recapture funds which are available for administrative costs. It further sets forth the precise allocations of such funding between the consultant and the County in adding a portion for indirect costs. A copy of the cost allocation plan for the current year is attached hereto and made a part hereof. In future years the cost allocation plan will be incorporated into the annual PHA plan. As a further mechanism to avoid the issues raised herein, all County staff who are being compensated through the use of Section 8 administrative funds will be required to document by use of time sheets how much time they spend in the overall administration of the program which shall include monthly monitoring of the consultant's activities.

**Comment 5**

Turning back to the specific questioned costs, it should be noted that the County has already or will return the questioned transfers for costs to the Section 8 program. These unsupported funds were mistakenly deposited into the County's CDBG Account, to reimburse that program for a portion of the salaries and indirect costs due to the County for the overall administration of the program. These funds as reflected in Recommendation 2A, 2B and 2D totaled \$104,077.00 for the operative period. These funds should not have been transferred to the CDBG Account because they appeared to be commingled with the CDBG funds. This occurred due to the fact that at the time the staff accountant working within my division did not seek supervisory approval for the transfer in writing. A procedure has now been put into place to insure that in addition to a representative of the Finance Department requesting the funds for transfer into the County's current fund for reimbursement, that it is reviewed and signed by the Bureau Head of Housing, Director of the Division of Planning & Community Development and finally by the Director of the Department of Parks & Community Renewal.

**Comment 5**


# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

**Comment 5**



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**COUNTY OF UNION**

Finally, with regard to Recommendation #2E, a review of the appropriate documents confirmed that this payment of \$1,261.00 was duplicated in two separate draw downs and has been returned to the Section 8 program.



## **OIG Evaluation of Auditee Comments**

**Comment 1** County officials indicated that during the entrance conference we had informed them that they were not being audited but that we were conducting a survey. The County was not aware of its risk score because it had a standard rating for SEMAP and was not aware of any tenant complaints. Finally, the County was not aware of any requirement for HUD approval of the consultant; therefore they request that the first paragraph of the highlights section of the report be changed to reflect this. During our entrance conference we explained to County officials that depending on our survey results we would determine if an audit is needed. On December 19, and 20, 2007, we informed the County officials that we would complete an audit and we provided them with the list of the units selected for the HQS inspections.

The HUD risk rating was a local analysis conducted by the Newark Office of Public Housing, which indicated that Union County had above average risk due to tenant complaints and because administration of the Housing Choice Voucher Program had been contracted to a consultant without HUD approval. We subsequently determined that HUD approval was not required for the procurement of the consultant and that the procurement had been conducted properly. Nevertheless, since this was the reason we selected the County for audit we did not change the highlights section of the report.

**Comment 2** County officials disagreed with the characterization of the units that did not meet housing quality standards as not being decent, safe and sanitary. As such, we reviewed our inspection results and have revised the report to state the units did not materially meet housing quality standards.

**Comment 3** County officials disputed that an estimated \$762,000 would be spent on units that are in material non-compliance with HUD standards because it is inconsistent to assume that additional units will have similar deficiencies since the units are owned by individual landlords and the housing stock is aging and in constant need of renovation and repair. Thus, County officials suggest that instead of placing an estimated dollar amount it would be appropriate to state that a percentage of the Section 8 vouchers were spent on units that had HQS deficiencies. Officials also would like the language in recommendation 1C to be changed. However, since the audit results are based on a statistical sample and were based on the most conservative projection, the \$762,000 is a reasonable number that would reflect the effect of not implementing our recommendations to ensure that units meet the standards. Further, since the scope and methodology section of the report states that 21 of 58 units (36 percent) materially failed to meet HUD's housing quality standards, and also

computes, using the most conservative statistical projection, that (26.66 percent) or 100 of the 377 units may be in material noncompliance with housing quality standards; we did not change the language in the finding or in recommendation 1C.

- Comment 4** County officials disagreed that the sums identified in recommendation 2B should be treated as ineligible expenditures and stated that the sums should be treated as unsupported expenditures because they were used to reimburse the County for expenses related to the administration of the Section 8 program. \$20,601 in funds was transferred from Section 8 recaptured money to the CDBG program to pay for CDBG administrative salaries. According to PIH Notice 2006-03, Section 8 recaptured funds can only be used for activities related to the Housing Choice Voucher program, therefore the use of these funds for CDBG expenditures are ineligible and should be reimbursed to the Housing Choice Voucher program.
- Comment 5** The County's actions are responsive to the findings, therefore once the actions are confirmed and accepted by HUD during the audit resolution process, it will result in a management decision and closure of the recommendations.
- Comment 6** The County provided a cost allocation plan for the Housing Choice Voucher program. The Newark Office of Public Housing will need to verify if the cost allocation plan is adequately supported as part of the audit resolution process.