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TO: Mirza Negrón Morales, Director, Office of Public Housing, 2APH

FROM: *Edgar Moore*
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SUBJECT: North Hempstead Housing Authority, Great Neck, New York, Had Weaknesses in Its Housing Choice Voucher and Family Self-Sufficiency Programs

HIGHLIGHTS

What We Audited and Why

We audited the North Hempstead Housing Authority's (Authority) administration of its Housing Choice Voucher and Family Self-Sufficiency programs as part of the Office of Inspector General's (OIG) strategic plan goals to improve the U.S. Department of Housing and Urban Development's (HUD) fiscal accountability regarding its rental assistance programs. We selected the Authority because it was designated as troubled by HUD and did not have a Section 8 management review since March 2000.

The audit objectives were to determine whether the Authority administered its Housing Choice Voucher and Family Self-Sufficiency programs in compliance with HUD regulations. Specific objectives were to assess whether the Authority properly (1) determined tenant eligibility and rental subsidy calculations, (2) administered its project-based vouchers, (3) accounted for portable vouchers, (4) implemented a housing quality standards inspection process, and (5) calculated and funded Family Self-Sufficiency program participants' escrow amounts.

What We Found

The Authority generally administered its Housing Choice Voucher program in accordance with HUD regulations. Specifically, the Authority properly determined Section 8 tenant eligibility and accurately calculated rental subsidies. However, the Authority did not properly administer its project-based voucher program, in that it improperly selected both units and tenants for project-based voucher assistance. In addition, the Authority incorrectly accounted for portable administrative fees, did not adequately administer its housing quality standards quality control inspection process, and improperly calculated and funded Family Self-Sufficiency program participants' escrow accounts.

What We Recommend

We recommend that the Director, Office of Public Housing, New York, instruct Authority officials to develop an allocation plan to ensure that project-based vouchers are issued in accordance with regulations and that tenants for project-based voucher assistance are properly selected; pay portable administrative fees due to receiving authorities and provide documentation to support fees paid; strengthen controls over its housing quality standards quality control inspection process; and fund current Family Self Sufficiency program participants' escrow accounts that are underfunded, reimburse escrow funds owed to graduated participants, and recoup funds from overfunded accounts.

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's Response

We discussed the contents of this report with Authority officials during the audit and provided them with a copy of the draft report on April 10, 2009. We held an exit conference on April 17, 2009, and received the Authority's written comments on May 1, 2009. The Authority generally agreed with our findings and has initiated corrective action in response to our recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Properly Administer Its Project-Based Vouchers	5
Finding 2: The Authority Had Weaknesses in Its Financial and Management Controls	8
Finding 3: The Authority Had Weaknesses in the Administration of Its Family Self-Sufficiency Program	13
Scope and Methodology	18
Internal Controls	20
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	22
B. Auditee Comments and OIG's Evaluation	23
C. Schedule of Participant Escrow Account Balances as of November 28, 2008	30

BACKGROUND AND OBJECTIVES

The North Hempstead Housing Authority (Authority) was established in 1946 as a not-for-profit public corporation to provide safe, decent, and affordable housing for low-income families. The Authority is governed by a seven-member board of commissioners. The executive director, who supervises the daily management operations of the Authority, was appointed in 2002. The Authority's main office is located at Pond Hill Road, Great Neck, New York.

The Authority administers Housing Choice Voucher and Family Self-Sufficiency programs funded by the U.S. Department of Housing and Urban Development (HUD). During the audit period, April 1, 2006, through March 31, 2008, the Authority received \$5.5 million in Housing Choice Voucher program and Family Self Sufficiency Coordinator funding, \$5.43 million and \$75,250 respectively.

The purpose of the Housing Choice Voucher program is to provide assistance to low- and moderate-income families seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. The purpose of the Family Self-Sufficiency program is to assist families in obtaining employment that will allow them to become economically independent. As of March 31, 2008, the Authority administered 175 housing choice vouchers and had 17 participants enrolled in the Family Self-Sufficiency program.

In July 1998, the State of New York enacted legislation authorizing the Authority to sell or lease all or part of its 286 New York State Department of Housing and Community Renewal public housing units contained in four developments: (1) Pond View Homes, a 52-unit family development; (2) Laurel Homes, a 66-unit family development; (3) Harbor Homes, a 66-unit family development; and (4) Spinney Hill, a 102-unit family development. The purpose of the legislation was to secure private capital to rehabilitate the developments and ensure a continued source of housing for low-income families. Each development is owned and operated by one of five¹ distinct limited partnerships sponsored by the Authority and in which its not-for-profit housing development fund corporation has a one percent ownership interest. In 2001 and 2002, the Authority selected a total of 24 units for project-based voucher assistance from among two of the privatized developments.

We initiated the audit to determine whether the Authority administered its Housing Choice Voucher and Family Self Sufficiency programs in compliance with HUD regulations. Specific audit objectives were to assess whether the Authority properly (1) determined tenant eligibility and rental subsidy calculations, (2) administered its project-based vouchers, (3) accounted for portable vouchers, (4) implemented a housing quality standards inspection process, and (5) calculated and funded Family Self-Sufficiency program participants' escrow amounts.

¹ The limited partnerships and not-for-profit housing development fund corporations are named for the developments, for example Spinney Hill Limited Partnership's sole general partner is Spinney Hill Development Fund Corporation. Furthermore, Spinney Hill has two limited partnerships and two sole general partners (I and II).

RESULTS OF AUDIT

Finding 1: The Authority Did Not Properly Administer Its Project-Based Vouchers

The Authority had administration weaknesses in its project-based voucher program that caused improper selection of both units and tenants for project-based voucher assistance, and rent reasonableness determinations to not be completed. As a result, the Authority inappropriately disbursed \$695,797 on units and tenants not properly selected or determined to have reasonable rents. This occurred because Authority officials were unfamiliar with HUD regulations.

Proposals for Project-Based Vouchers Not Solicited

Authority officials inappropriately provided project-based voucher assistance to 24 Authority-owned units. Regulations at 24 CFR (*Code of Federal Regulations*) 983.51(e) provide that an authority-owned unit may be assisted under the project-based voucher program if the HUD field office or a HUD-approved independent entity reviews the selection process and determines that the authority-owned units were selected based on the selection procedures specified in the authority's administrative plan. Further, regulations at 24 CFR 983.51 provide that an authority's administrative plan must describe procedures for submission and selection of owner project-based voucher proposals.

Authority officials did not comply with regulations regarding the selection of these project-based voucher units. First, the Authority's Section 8 administrative plan does not specify a process for soliciting and selecting project-based voucher proposals. Second, Authority officials selected the 24 project-based voucher units from two of its previously administered New York State low-income developments without soliciting project-based voucher proposals, documenting an allocation plan, or obtaining HUD approval as required. This noncompliance occurred because Authority officials believed that, since two of its former New York State low-income developments were privatized and fully renovated, they were not required to solicit project-based voucher proposals. As a result, Authority officials inappropriately disbursed \$695,797 in housing assistance payments during the period reviewed, and will continue to inappropriately disburse the current annual subsidy of \$281,196.

Improper Selection of Project-Based Voucher Tenants

Authority officials selected six applicants for project-based voucher assistance from a waiting list that the Authority administered for its New York State low-income housing.² Regulations at 24 CFR 983.251(c)(1) require that applicants for project-based voucher-assisted units be selected from an authority's Section 8 waiting list. During the period April 2006 through December 2008, Authority officials disbursed \$135,915 in housing assistance payments for these units. We do not regard these costs as ineligible since the tenants met eligibility requirements for housing assistance; however, potentially eligible applicants on the Authority's Section 8 waiting list were not offered project-based voucher assistance and continued to wait for tenant-based assistance. This condition occurred because Authority officials provided the wrong waiting list to the management agent.

Independent Rent Reasonableness Determinations Not Obtained

While Authority officials arranged for inspections by an independent entity, they did not ensure that the entity conducted rent reasonableness determinations for its Authority-owned units. Regulations at 24 CFR 983.59(b) require that both rent reasonableness determinations and housing quality standards inspections for authority-owned units be performed by an independent entity approved by HUD. However, the entity merely documented unit rental postings from newspapers. As a result, HUD lacked assurance that the rents charged monthly for project-based voucher-assisted units were reasonable.

Conclusion

The Authority generally administered its Housing Choice Voucher program in compliance with HUD regulations; however, there were weaknesses in the administration of its project-based voucher program. As a result, the Authority disbursed \$695,797 in housing assistance payments for project-based voucher units that were not properly selected, waiting list applicants were improperly chosen, and project-based voucher-assisted rents may not have been reasonable. These weaknesses occurred because Authority officials were unfamiliar with various HUD regulations.

² While the Authority selected 24 applicants for project-based voucher assistance, 18 resided in the development before its privatization and renovation. Such "in place families" are given preference to avoid displacement and, thus, were provided assistance in accordance with regulations.

Recommendations

We recommend that the Director, Office of Public Housing, New York, instruct Authority officials to

- 1A. Ensure compliance with regulations by establishing and incorporating into its Section 8 Housing Choice Voucher program administrative plan, procedures for the solicitation and evaluation of proposals for project-based voucher-assisted units before any future selections of such units.
- 1B. Obtain HUD approval for the designation of the 24 project-based vouchers, or convert them to tenant-based vouchers, thereby ensuring that the annual subsidy payment of approximately \$281,196 will be used on units that are properly approved for project-based vouchers.
- 1C. Develop procedures and implement controls to ensure that future vouchers are distributed to applicants on the Authority's Section 8 waiting list.
- 1D. Have an independent entity conduct rent reasonableness determinations for Authority-owned units receiving project-based voucher assistance to ensure that unit rents are reasonable as required by 24 CFR 983.59(b).

Finding 2: The Authority Had Weaknesses in Its Financial and Management Controls

There were weaknesses in the Authority's financial and management controls. These weaknesses resulted in (1) \$2,467 in unpaid portable administrative fees to receiving authorities and \$9,724 in portable administrative fees without supporting documentation, (2) \$3,530 in unsupported contract costs and procurement actions, (3) the allocation of costs based upon an outdated allocation plan, (4) the disbursement of \$50,237 in housing assistance payments to an ineligible owner, and (5) the improper selection and inadequate tracking of housing quality standards quality control inspections. These weaknesses occurred because of the Authority's unfamiliarity with program requirements and errors in the implementation of its policies.

Unpaid Portable Administrative Fees and Fees Paid for Former Port-Outs

The Authority had not paid \$2,467 in portable administrative fees due to three receiving authorities for four port-out tenants. These fees had been unpaid from 4 to 24 months. Regulations at 24 CFR 982.355(e)(1)-(3) require that 80 percent of an initial authority's ongoing administrative fee be promptly paid when it receives a bill from a receiving authority for port-out tenants. Authority officials believed that the payments had been made because it issued separate checks for housing assistance payments and portable administrative fees and checks for the housing assistance payments had been remitted. In addition, the Authority lacked bills from a receiving authority to support \$9,724 in portable administrative fees paid from April 1, 2006, through March 31, 2008. These deficiencies occurred because the Authority lacked controls over the reconciliation of portable administrative fees payable.

Unsupported Contract Costs and Procurement Actions

After the Authority was unsuccessful in hiring a replacement when its bookkeeper resigned in May 2007, it contracted with that bookkeeper without soliciting bids, documenting board approval, or executing a formal contract. Section 2.1(D) of the Authority's procurement policy requires three quotes and board approval to execute any contract in excess of \$5,000. However, during the period July 2007 through November 2008, the former employee was compensated \$20,308, based upon a rate of \$46.43 per hour, for these services, which represents a 21 percent increase over the \$38.36 hourly rate for salary and fringes that the bookkeeper earned as an employee. Consequently, without evidence of solicitation of bids to justify that the services were procured at a reasonable rate, we regard \$3,530 (the difference between the amount the bookkeeper earned as an employee and

received as a contractor) as an unsupported expense. Additionally, in July 2008 after the Authority received one response to a request for proposals for bookkeeping services, it outsourced some services to the company that managed the Authority's privatized units. However, an Authority official stated that the company had not been paid and an evaluation was ongoing to determine the amount of work and to set the contract price.

In addition, the Authority lacked documentation for the procurement of the family self-sufficiency coordinator and improperly renewed the contract. Section 1.4(B) of the Authority's procurement policy requires contracts to be supported by sufficient documentation regarding the history of any procurement, and regulations at 24 CFR 85.36(i)(11)³ require the retention of procurement records for three years after final payment is made. A coordinator contract in the amount of \$43,800 annually, initially awarded in June 2002, and effective August 1, 2002, was renewed four times and will expire on December 31, 2009. Due to the lack of records, the Authority could not provide assurance that the procurement of the contract family self-sufficiency coordinator was conducted in full compliance with applicable requirements and that the most economical price was obtained.

Further, upon its expiration in December 2009, the contract will have been in effect for six years and five months⁴. While the initial contract did not include an option for renewal or extension, the Board of Commissioners continued to authorize contract extensions without HUD approval. Contracts that exceed a total of five years are viewed as restrictive of competition and in violation of 24 CFR 85.36(c). Handbook No. 7460.8 REV 2, Chapter 10.8 C2, provides that contracts shall not exceed a period of five years, including options for renewal or extension. While HUD may approve contracts in excess of five years if it determines there is no practical alternative, the Authority had not sought HUD approval.

Cost Allocation Plan Outdated

The Authority did not properly document the allocation of costs among its programs. It allocated its employee salaries and general administrative costs among its New York State housing, low-rent, and Section 8 programs, as well as its nonprofit entities. However, the Authority's cost allocation plan was last revised in March 2006. The plan is outdated as it contains the names of former Authority employees who resigned from their positions in September 2006 and May 2007. Further, as of December 22, 2008, the Authority's remaining New

³ The Authority's procurement policy indicates compliance with the procurement standards provided by 24 CFR 85.36.

⁴ Authority officials did not renew the contract upon its expiration on December 31, 2005 because the Authority did not receive HUD funding for a family self-sufficiency coordinator in fiscal year 2006. The following year funding resumed and the contract was renewed on January 1, 2007.

York State development had been privatized, and the Authority was no longer responsible for its day-to-day management. Consequently, the Authority's cost allocation plan, which is based on the number of units in each program, needs to be redeveloped to reflect current employees and program units.

Ineligible Housing Assistance Payments

During the period November 1, 2002, through July 1, 2007, the Authority erroneously disbursed \$50,237 in housing assistance payments for a unit owned by the father of assisted family members who were not disabled. Regulations at 24 CFR 982.306(d) prohibit approving a unit when the owner is the parent, child, grandparent, grandchild, sister, or brother of any member of the assisted family, unless approving such a tenancy would provide reasonable accommodations for a disabled family member. Authority officials said that they were unaware of the prohibited owner-family relationship. Authority procedures provide that during an applicant's initial certification process, inquiry is made about whether owner-family relationships exist when both the tenant head of household and the owner have the same last name, which was not applicable in this case. Further, the owner certified on the housing assistance payments contract and the request for tenancy approval that a prohibited owner-family relationship did not exist. While the Authority exercised due diligence during the certification process and had established adequate controls in its tenant certification process, the owner was erroneously paid.

Improper Selection and Tracking of Quality Control Inspections

The Authority did not always properly select or adequately track the results of housing quality standards quality control inspections. Regulations at 24 CFR 985.3(e)(3) require that the quality control inspection sample be made from inspections performed during the past three months. However, the eight inspections drawn in 2008 for quality control inspections had been completed between seven and twelve months earlier. In addition, the Authority did not always provide written notification to landlords and tenants for all failed items resulting from housing quality standards quality control inspections conducted in 2007 and 2008. Also, it did not maintain a system for tracking and recording the results of the quality control inspections. For instance, Authority officials did not formally document with a reinspection report that 9 of 20 units that failed the quality control inspections in 2007 and 2008 were reinspected to verify correction of the deficiencies. In addition, officials did not maintain copies of all prior recertification inspection reports. Chapter 10.9, Indicator 6, of HUD's Housing Choice Voucher Program Guidebook 7420.10G requires the Authority to have a

system for tracking and recording the results of the housing quality standards quality control inspections that, at a minimum, documents the date of original failed inspection and the date and result of reinspection. Authority officials were not aware of this tracking requirement; hence, HUD lacked assurance that reinspections always occurred and units met housing quality standards.

Conclusion

Weaknesses in financial and management controls existed because the Authority was unfamiliar with program requirements and experienced errors in the implementation of its policies. As a result, (1) \$2,467 in portable administrative fees were not paid to receiving authorities, (2) \$9,724 in unsupported portable administrative fees were paid to a receiving authority, (3) \$3,530 in unsupported contract costs were incurred, (4) the allocation of costs was based upon an outdated allocation plan, (5) the Authority disbursed \$50,237 in housing assistance payments to an ineligible owner, and (6) housing quality standards quality control inspections were improperly selected and inadequately tracked.

Recommendations

We recommend that the Director, Office of Public Housing, New York, instruct Authority officials to

- 2A. Pay \$2,467 in portable administrative fees due to receiving authorities on behalf of its port-out tenants.
- 2B. Provide documentation for \$9,724 in unsupported portable administrative fees paid, and if support cannot be provided, the Authority should recoup the fees paid from the receiving authority.
- 2C. Strengthen controls over the reconciliation and payment of portable administrative fees.
- 2D. Provide support for or reimburse \$3,530 paid in consulting fees for bookkeeping services.
- 2E. Strengthen controls over the procurement process to ensure compliance with HUD's procurement regulations, including the requirement that contracts be for a finite period, including options, which does not exceed a five-year period unless HUD approval is obtained.
- 2F. Revise its cost allocation plan to reflect current employees and program units to ensure that allocated costs are properly supported.

- 2G. Seek repayment of \$50,237 in ineligible housing assistance payments.
- 2H. Strengthen controls over the housing quality standards quality control inspection process to ensure that inspection samples are properly selected, landlords and tenants are notified of deficiencies, and failed units are reinspected.
- 2I. Establish and maintain a system for tracking, recording, and monitoring the results of housing quality standards quality control inspections.

Finding 3: The Authority Had Weaknesses in the Administration of Its Family Self-Sufficiency Program

The Authority had weaknesses in the administration of its Family Self-Sufficiency program. Specifically, Authority officials did not properly calculate or fund escrow credits, distribute an escrow account, or comply with administrative requirements for its program. These weaknesses occurred because Authority officials were unaware of applicable program requirements. Consequently, 10 active participant accounts were underfunded by \$32,325, three accounts were overfunded by \$3,666, three graduated participant accounts were underpaid by \$3,279, and one was overpaid by \$4,807. In addition, one participant had not been paid \$6,904 and \$19,193 in forfeited escrow funds was not deposited into the Authority's general account. Further, the Authority's program did not comply with program approval, minimum size, and program coordinating committee requirements.

Escrow Amounts Incorrectly Calculated and Funded

Authority officials' failure to consistently deposit and correctly calculate escrow deposits caused the underfunding of 10 active participant accounts by \$32,325 and the overfunding of three accounts by \$3,666 (see appendix C). In addition, three graduates were underpaid by \$3,279, and one was overpaid by \$4,807. The HUD Housing Choice Voucher Program Guidebook 7420.10G, section 23.5, provides that escrow credits result when increases in the family's earned income cause the family's total tenant payment to increase. The difference between the family's increased current total tenant payment and the total tenant payment on the effective date of the contract of participation represents an escrow credit to be deposited. Regulations at 24 CFR 984.305(a) provide that Family Self-Sufficiency program participant escrow funds should be deposited into a single depository account invested in one or more HUD-approved investments, and the Authority's policy provides for monthly deposits of earned escrow. Nevertheless, Authority officials failed to consistently make the required monthly deposits into escrow accounts.

Officials stated that deposits were not made during the period February 2006 through March 2007 because they suspended the program when the Authority did not receive HUD funding for a family self-sufficiency coordinator in fiscal year 2006. Consequently, Authority officials did not renew their coordinator contract, through which all essential supportive services were provided, upon its expiration on December 31, 2005. Further, rather than forfeit participant funds and void all participant contracts, Authority officials informed the participants that the program would be suspended. However, while funding for a coordinator resumed effective October 1, 2006, Authority officials did not make escrow deposits until April 2007. Deposits were also not made during the period June through October 2008, although a lump sum catch-up deposit was made in November 2008.

Authority officials attributed this lapse in deposits to the transition to outsourced bookkeeping services. In addition, an escrow account was not opened until January 2009 for a participant for whom escrow funds should have been deposited starting in November 2008. This lapse in funding was due to delays in processing the paperwork.

Authority officials also incorrectly calculated escrow credits for 16 of 23 participants because they incorrectly applied participants' earned income, total tenant payment, and HUD income limits when calculating the escrow credits. Further, when the program resumed after its suspension, officials incorrectly calculated escrow credits for 11 of the 12 active participants by using the current earned income rather than the earned income on the effective date of the contract of participation or by using the incorrect total tenant payment on the effective date of the contract of participation. Further, the remaining active participant's escrow credits were not calculated during the next two reexaminations of income, resulting in an underfunded escrow account balance.

In addition, for three participants, Authority officials used the participants' earned income from the wrong period when they initially executed contracts of participation, and they incorrectly calculated two participants' escrow credit because they applied the wrong income limits. In the first case, they applied income limits for a family of eight, rather than ten. In the second case, they applied the previous year's income limits, which caused the participant's adjusted income to exceed the very low-income limit, thereby reducing the escrow credits calculated. There were also a number of instances in which incorrect income limits were applied with no effect. These errors occurred because Authority officials failed to manually update their system in a timely manner to reflect the changes in HUD's annual income limits.

Escrow Amounts Not Distributed

Authority officials did not distribute earned escrow funds to one participant. Chapter 23.5 of Housing Choice Voucher Program Guidebook 7420.10G also provides that a family is eligible to receive its escrow account when 30 percent of the family's monthly adjusted income equals or exceeds the fair market rent for the family, regardless of whether all planned goals in the contract of participation have been achieved. One participant met this requirement, effective May 1, 2008, and was terminated from the Housing Choice Voucher program on November 1, 2008, in accordance with program regulations.⁵ However, while the participant was eligible to receive escrow account funds on May 1, 2008, the Authority had not disbursed the \$6,904 to which the participant was entitled.

⁵ Regulations provide that the housing assistance payment contract automatically terminates after 180 days since the last housing assistance payment to the owner.

In addition, \$19,193 in forfeited funds should have reverted to the Authority. Chapter 23.5 of Housing Choice Voucher Program Guidebook 7420.10G provides that escrow funds are forfeited if a contract of participation is terminated. Forfeited funds revert to the Authority and are treated as program receipts available to pay approved program expenses. As of November 28, 2008, funds amounting to \$19,193⁶ that should have been forfeited by three participants upon termination of their contract in September and October 2005, and May 2008, respectively, remained on deposit in the escrow accounts.

Noncompliance with Program Administrative Requirements

Authority officials did not provide participants with annual reports on their escrow accounts as required. Section 23.5 of Housing Choice Voucher Guidebook 7420.10G requires that each participant receive a report on the participant's escrow account at least annually, including the beginning balance, any amount credited or deduction made during the period, the interest earned on the account, and the ending balance. While participants were provided reports, the reports were not always provided annually and did not include all required information. The contract coordinator acknowledged the deficiency and said that action would be taken to ensure that reports complied with the requirements.

In addition, the Authority's program did not comply with HUD requirements for approval, program size, and program coordinating committee composition. Regulations at 24 CFR 984.201(a) provide that an authority must have a HUD-approved action plan that complies with the requirements before it implements its Family-Self Sufficiency program. On April 5, 2001, Authority officials submitted a program action plan to HUD, which HUD did not approve because it did not include incentives to encourage participation, outreach efforts to recruit minority and nonminority families, and an assurance that a family's decision not to participate in the Family Self-Sufficiency program would not affect its participation in the Section 8 program. While the plan was resubmitted on July 21, 2003, there was no documentation showing that it had been approved.

The Authority's program did not comply with mandatory minimum program participant requirements. The Authority's family self-sufficiency action plan requires that the Authority operate a program with 50 participants; however, the Authority had never met that mandatory minimum number. Regulations at 24 CFR 984.105(d) require HUD approval to operate a Family Self-Sufficiency program with less than the required minimum number of participants. During the audit period, April 2006 through March 2008, the number of participants ranged from a low of 12 to a high of 17 and was at 17 at the end of the audit period. Despite its outreach efforts to increase participation, Authority staff cited a lack of

⁶ As of November 28, 2008, \$16,150 was the sum of the three escrow account balances (\$7,001 + \$749 + \$8,400). However, the balance was understated by a net of \$3,043, since two escrow account balances were underfunded by \$3,792 and one was overfunded by \$749 (see appendix C).

family interest for low participation in the program. However, Authority officials had not requested approval from HUD to administer a smaller program. This condition occurred because Authority officials were unaware that they needed to request HUD approval.

Furthermore, the Authority's program coordinating committee did not comply with HUD requirements. Regulations at 24 CFR 984.202(a), (b)(1)(ii), and (2) require that a program coordinating committee be established to assist an authority in obtaining public and private resource commitments for the operation of its Family Self-Sufficiency program. The committee should include representatives from the authority; a Section 8 participant; and representatives from local government, local job training programs, employment agencies, public child welfare agencies, public/private education or training institutions, child care providers, nonprofit service providers, and private businesses. Although the Authority's contract family self-sufficiency coordinator established a program coordinating committee, the committee was located outside the Authority's jurisdiction, and neither representatives from the Authority nor a Section 8 participant were members of the committee. This condition occurred because Authority officials were unaware of the committee membership requirements.

Conclusion

As a result of weaknesses in controls and unfamiliarity with administrative requirements in the operation of its Family Self-Sufficiency program, Authority officials improperly funded escrow accounts, incorrectly calculated escrow credits, and did not comply with administrative requirements. Consequently, the Authority lacked assurance that its program met requirements and operated effectively.

Recommendations

We recommend that the Director, Office of Public Housing, New York, instruct Authority officials to

- 3A. Fund current participants' escrow accounts \$32,325, due to failure to deposit required funds, and recoup \$3,666 from participants' escrow accounts that were overfunded due to errors in escrow credit calculations.
- 3B. Recoup \$4,807 overpaid to a graduated participant from the Authority's administrative fee equity account, reimburse \$3,279 in escrow deposits owed to graduated participants, and pay \$6,904 to the graduated participant that was not paid.

- 3C. Transfer \$19,193 in forfeited escrow funds to its general account for the payment of approved program expenses as allowed by regulations.
- 3D. Strengthen controls over the administration of escrow accounts to ensure that escrow credits are properly calculated and deposited into participants' accounts in a timely manner.
- 3E. Implement controls to ensure that participants receive annual reports on escrow account activity.
- 3F. Submit the revised family self-sufficiency action plan to HUD for approval to ensure that all required information is included and provide greater assurance that the Authority's program will be properly administered.
- 3G. Strengthen controls over program administration to ensure that the required program size is maintained and if not, request approval to operate a smaller program.
- 3H. Establish a program coordinating committee as required or become a member of an existing committee that is in compliance with regulations.

SCOPE AND METHODOLOGY

To accomplish our objectives, we

- Reviewed applicable laws; HUD regulations at 24 CFR Parts 982, 983, and 984; HUD's Public and Indian Housing Notices 2006-03, 2006-05, 2007-14, and 2008-15; and HUD's Housing Choice Voucher Guidebook 7420.10G.
- Reviewed the Authority's Section 8 administrative plan, family self-sufficiency local action plan, family self-sufficiency coordinator contract, and board meeting minutes to obtain an understanding of the policies, procedures, and internal controls affecting the Authority's programs.
- Analyzed HUD field office monitoring reports and independent public accountant audit reports for fiscal years 2006 and 2007 to identify internal control weaknesses and financial trends.
- Interviewed officials at the HUD field office and the Authority, as well as its family self-sufficiency coordinator and independent fee accountant.
- Analyzed the Authority's bank reconciliations, bank statements, cancelled checks, check registers, and general ledgers pertaining to its Housing Choice Voucher program and the bank statements and cancelled checks pertaining to the Family Self-Sufficiency program. We also analyzed the Authority's cost allocation plan to ensure that it was properly supported.
- Selected a sample of 10 tenant files to assess whether the Authority properly determined tenant eligibility and rental subsidy calculations and ensured that voucher-assisted units complied with HUD housing quality standards. We examined 20 housing quality standards quality control inspection reports from 2007 and 2008 to determine compliance with HUD regulations and to assess the inspector's performance.
- Conducted inspections for a sample of 10 Section 8 housing choice voucher units to determine the Authority's compliance with housing quality standards.
- Reviewed three contracts to evaluate the Authority's compliance with applicable procurement requirements.
- Reviewed monthly reports on Section 8 units leased during the period April 1, 2006, through March 31, 2008, to determine whether administrative fees were correctly earned and excess fees were credited to a net unrestricted asset account, also referred to as an administrative fee equity account.

- Selected the months of April 2006 and March 2008 to determine whether the Authority made portable administrative fee payments to the receiving authorities in a timely manner.
- Reviewed files for the 23 Family Self-Sufficiency program participants during the period March 2003 through November 2008 to verify that contracts of participation were properly executed; escrow funds were properly calculated; and terminations, graduations, and escrow payments complied with the regulations.
- Recalculated a number of escrow credits and escrow account balances, which included an estimation of interest earned.

We performed on-site work from June 2008 through April 2009 at the Authority's main office, located at Pond Hill Road, Great Neck, New York. The audit period was April 1, 2006, through March 31, 2008, and was expanded as determined necessary.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding 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 significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following item is a significant weakness:

- The Authority lacked adequate procedures and controls to ensure compliance with HUD regulations regarding the selection of Authority-owned units and tenants for project-based voucher assistance, and the administration and financial management of its Housing Choice Voucher and Family Self-Sufficiency programs (see findings 1 through 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/
1B			\$281,196
2A			2,467
2B		\$9,724	
2D		\$3,530	
2G	\$50,237		
3A	3,666		32,325
3B	4,807		10,183
3C			19,193
Total	<u>\$58,710</u>	<u>\$13,254</u>	<u>\$345,364</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 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. In these instances, if HUD ensures that project-based units and tenants are properly selected and the Authority establishes and implements procedures to properly fund participant escrow accounts and transfers forfeited funds to its account for program use, the annual subsidy of \$281,196 for properly approved units, the \$2,467 due receiving authorities for port-out tenants, the \$32,325 due current participant escrow accounts, the \$10,183 due graduated participants, and the \$19,193 to be credited to the Authority will represent funds to be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

NORTH HEMPSTEAD HOUSING AUTHORITY

POND HILL ROAD, GREAT NECK, NY 11020

TEL: (516) 627-6433 FAX: (516) 627-8476

F. MICHAEL FRANZESE, JR., PHM, ARM, RPA
EXECUTIVE DIRECTOR

MATTHEW CUOMO, VICE-CHAIR
BETTE SEGAL, SECRETARY/TREAS
SIELA A. BYNOE
ALAN COOPER, Ph. D
IZORA FREEMAN
LESLIE T. HOUSE

May 1, 2009

Mr. Edgar Moore, Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278 0068

Re: Response to Audit

Dear Mr. Moore:

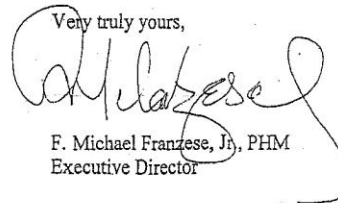
Pursuant to your request, enclosed please find a response to your department's audit of the North Hempstead Housing Authority's (NHHA) administration of its Housing Choice Voucher (HCV) and Family Self- Sufficiency (FSS) programs.

Kindly note, in our response the NHHA indicated that every effort would be made to ensure that we work with the HUD field office personnel to rectify the findings and to amend our Administrative Plan to reflect consistency in the administration of our programs. Furthermore, the NHHA will utilize the services of the FSS Coordinator, our Independent Fee Accountant, our Section 8 Fee Inspector, and all sources available to resolve any findings or concerns.

A copy of the enclosed has been forwarded to Shelly Gibson, from your office, via mail.

I trust this meets with your approval.

Very truly yours,



F. Michael Franzese, Jr., PHM
Executive Director

FMF:ms
enc

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BACKGROUND

The information in this report is in response to a draft report of the HUD inspector General submitted to this office dated April 10, 2009. This response is provided by the North Hempstead Housing (NHHA) for consideration by the Office of Inspector General (OIG) exit conference occurring on April 17, 2009.

Finding 1: The Authority Did Not Properly Administer Its Project Based Vouchers

The Authority had administration weaknesses in its project-based voucher program that caused improper selection of both units and tenants for project-based voucher assistance, and rent reasonableness determinations to not be completed.

Comment 1-Improper Selection of Project Based Tenants

The NHHA provided project-based voucher assistance to 24 units. While the NHHA's Section 8 Administrative Plan had not specified a process for soliciting and selecting project-based vouchers, the NHHA is in the process of establishing and incorporating into our Section 8 Housing Choice Voucher Program Administrative Plan, procedures for solicitations and evaluation of proposals for project-based voucher-assisted units, to ensure that future selections of such units comply with regulations.

The disbursements of Housing Assistance Payments (HAP) were made to tenants that met eligibility requirements for housing assistance; therefore no HAP payments were made to ineligible tenants. Tenants residing on the site, prior to the completion of the renovations were afforded an opportunity for the project-based voucher. The attachment of the voucher to the unit rather than the flexibility of the moving and retaining subsidy are a determining factors that tenants make, in this geographical location.

To ensure that this matter is adequately rectified the NHHA will obtain HUD approval for the designation of the 24 project-based vouchers, thereby ensuring that the annual subsidy payment be used on approved project- based vouchers.

The inclusion of specific procedures in the Section 8 Administrative Plan will ensure that future vouchers are distributed to applicants pursuant to the Waiting List and are consistent with the Plan.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2-Independent Rent Reasonableness Determination Not Obtained

The Town of North Hempstead is *one* of the most affluent townships in New York. In conforming to Regulation 24 CFR 983.59(b), the NHHA arranged for inspections to be made by an independent entity. In determining rent reasonableness the NHHA had utilized for the initial project, a Market Rental Analysis, prepared by an Independent Fee Appraiser (IFA), for its initial privatization project (Pond View Homes). The IFA determined that the rent roll was far below comparable units in the area.

Subsequent projects and local market conditions, as documented by rental posting from periodicals and newspapers, were used to determine reasonableness determinations. Those findings also revealed that the rent roll was far below comparable units in the area.

However, we will have an independent entity conduct rent reasonableness determinations for NHHA owned units are reasonable as required by 24 CFR 983.59(b).

Finding 2: The Authority Had Weaknesses in its Financial and Management Controls

There were weaknesses in the Authority's financial and management controls.

Comment 1-Unpaid Portable Administrative Fees and Fees Paid for Former Port-Outs

The NHHA had a full time Senior Account Clerk, responsible for all of the NHHA financials. The Senior Account Clerk left the employ of the NHHA and the NHHA was faced with the task of replacing the Senior Account Clerk, after the NHHA was given just two weeks notice of her departure. This was an unreasonable time frame.

Since the employees of the NHHA are all in both a union and governed under the Nassau County Civil Service Commission, obtaining a replacement is a long and arduous task. The NHHA had to solicit, under a time frame set forth by the Civil Service Commission, all candidates from their list. The NHHA was mandated to utilize a specific form and format and to contact a list of candidates provided by the Commission.

After soliciting all candidates, an issue arose from the Commission, relative to residency requirements. After weeks of canvassing, the NHHA had to wait for a determination regarding a ruling about the utilization of only Town of North Hempstead residents or not. Ultimately the NHHA was informed that Town of North Hempstead residents had to be exclusively considered, first, then canvass Nassau County candidates. This prolonged the process.

Eligible candidates were interviewed and days before considering hiring a replacement, the NHHA was informed that the Civil Service list had expired and a new list was certified for the NHHA to begin the process again.

This time the candidates were interviewed by the Executive Director and the NHHA, contracted, Independent Fee Accountant. The candidates were not qualified. Many could not do routine bookkeeping responsibilities. During the entire duration of canvassing a replacement, bills for the NHHA operations were accumulating, the vendors were demanding payment and other fiscal matters were beginning to overwhelm the NHHA staff. It was determined that until such time the NHHA replaced the Senior Account Clerk, an emergency replacement had to be utilized, immediately.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

The former Senior Account Clerk was willing to assist, primarily on weekends or nights, to ensure the financial viability of the NHHA remained in operation. This was destined to be a short term fix, since the NHHA was converting a NYS Public Housing site to a limited partnership (LP) and the former Senior Account Clerk's services would no longer be required. The time frame of the LP conversation changed various times and ultimately the need of the former Senior Account Clerk was lessened, to the extent the services are no longer required.

As the fiscal issues and staffing problem required an immediate resolution, an advertisement was placed for a back office service provider. The sole response was an experienced management firm and they had the immediate ability to assist in bill paying, reconciliations and all other fiscal issues. They had documented expertise in HUD programs and the need was evident. The amount of time required to complete the transition was minimized, due to their capabilities.

The deficiencies in the fee payment and port outs can be attributed to the lack of continuity and the situation the NHHA was placed in.

All administrative fees for port-out tenants will be reviewed for possible payments and the NHHA will review the unsupported administrative fees paid and will attempt to recoup the fees paid to the receiving authority. All future portable administrative fees will be strengthened.

Any and all HUD permission for loan transfer fees and other HUD compliance will be addressed and resolved expeditiously.

Comment 2-Unsupported Contract Costs and Procurement Actions

The necessity of a full time accountant/bookkeeper for any housing authority is obvious. The NHHA was in a position in which the former employee did not provide sufficient time upon her resignation and the constraints placed upon the Nassau County Civil Service Commission, made replacing the fiscal needs extremely difficult.

The procurement of the Family-Self Sufficiency (FSS) Coordinator was conducted through the Program Coordinating Council (PCC). Nassau County Office of Housing & Intergovernmental Affairs had established a Nassau County PCC in 2003. Community Development Corporation of Long Island (CDC) was the program administrator for the NHHA and is a member of the Nassau County PCC. The Nassau County PCC discontinued holding meetings approximately two years ago. CDC FSS staff has contacted Nassau County on a regular basis and have been told that they will be scheduling meetings.

CDC has a well established regional Long Island PCC that has been meeting since 1993. The regional PCC meets five times a year and the committee includes representatives from local government, local job training programs, public child welfare agencies, non-profit providers, private businesses and Section 8 participants. NHHA will make a formal request to HUD that NHHA become a member of the regional Long Island PCC, which would meet the program requirements.

All contracts were extended each year the FSS Grant was funded. There was one year that the NHHA did not meet a home ownership requirement and there was no funding. However, the contract was extended, each year new funding was granted, since the terms of payments changed.

Comment 3-Cost Allocation Plan Outdated

Comment 2

Comment 3

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 4

The cost allocation plan, as determined by the NHHA IFA for the first quarter of 2009 was 46% Federal, 14% Section 8 and 40% NYS. The allocation has been amended to reflect the privatization of the NYS properties.

Comment 4-Ineligible Housing Assistance Payments

The overpayment of an owner-family relationship occurred due to the fact the owner certified that there was no relationship to the tenant. The NHHA exercised due diligence during the certification process and had established adequate controls in its tenant certification process. The owner certified on the HAP contract and Request for Lease Approval that a prohibited owner-family member **did not exist**. The NHHA will seek repayment of any ineligible payments.

Comment 5-Improper Selection and Tracking of Quality Control Inspections

The North Hempstead Housing Authority will ensure compliance with 24 CFR 985.3(e) (3) regarding Quality Control of HQS inspections performed during the year by:
The Authority will randomly select 5% of the inspections perform in each quarter and perform a Quality Control inspection. The results of the inspections will be recorded on form HUD-52580. The Authority will provide written notification to landlords and tenants of all failed items in a timely manner.

The Authority will track the QC inspections that will contain the following information.

Address

Name of tenant

Date of inspection

Results (Pass/Fail)

Date of letter sent to Landlord/Tenant (If failed items were found)

Date of reinspection (if required)

Results of reinspection

Finding 3: The Authority Had Weaknesses in the Administration of Its Family Self Sufficiency Program

The Authority had weaknesses in the administration of its Family Self-Sufficiency program. Specifically, Authority officials did not properly calculate or fund escrow credits, distribute an escrow account, or comply with administrative requirements for its program.

Comment 1-Escrow Amounts Incorrectly Calculated and Funded

The direct lack of a fiscal manager resulted in the incorrect calculations and funding.

It is the sole responsibility of the NHHA to establish, maintain and track FSS escrow accounts for FSS participants. This includes calculations, distribution of escrow funds and termination of escrow accounts.

NHHA will contact the Housing Choice Voucher management systems provider, Lindsey Software, to determine if there is a need to install additional software for the tracking of FSS participant escrow accounts. NHHA staff receives training on the use of the FSS software (if applicable).

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 5

NHHA will meet with Community Development Corporation of Long Island (CDC) administration and staff liaison assigned to FSS, to review procedures for enrolling, terminating and graduating FSS participants.

CDC as FSS program administrator has provided clients with year end escrow update letters. Escrow letters for calendar year 2008 have not been sent due to the Inspector General's audit of NHHA's FSS program and escrow accounts. NHHA staff had requested that CDC do not send out the letters until the audit is completed. Subsequent to the draft audit, CDC indicated that escrow letters are being sent out.

Henceforth, by January 15th, NHHA will provide CDC's FSS Program Coordinator with FSS escrow account information for each active participant. CDC will mail escrow letters to each FSS participant providing them with the beginning account balance, any distributions and ending balance with interest for the previous calendar year. Letters will be mailed no later than January 30th.

Since, NHHA is required to have a mandatory program size of 50, the NHHA will conduct an FSS outreach mailing to all Housing Choice Voucher participants. CDC FSS staff will assist in preparing the outreach materials for the mailing and providing informational sessions on site. The NHHA is considering requesting a reduction of the mandatory FSS program size from 50 to 25.

Conclusion

The NHHA will review the Audit with the contractors (i.e. Independent Fee Accountant, FSS Coordinator and Independent Section 8 Inspector) to correct all findings and request the appropriate approvals from HUD, to satisfy the regulations and audit findings..

OIG Evaluation of Auditee Comments

- Comment 1** Authority officials determined rent reasonableness using a market rental analysis prepared by an independent fee appraiser for the Authority's first privatized project; however, a similar analysis was not prepared for the second privatized project. In addition, an independent entity approved by HUD neither established the initial contract rents nor redetermined the rents at the annual anniversary of the housing assistance payment contracts as required by 24 CFR (*Code of Federal Regulations*) 983.59(b)(1).
- Comment 2** While Authority officials stated that the Family Self-Sufficiency Coordinator procurement was conducted through the Program Coordinating Council, the Authority could not provide records to document the procurement process as required by 24 CFR (*Code of Federal Regulations*) 85.36(i)(11).
- Comment 3** While the Authority obtained Board approval to extend the family self-sufficiency coordinator contract each year the family self-sufficiency grant was funded, HUD approval was not requested as required by HUD Handbook 7460.8 REV 2, Chapter 10.8 C2 even though the contract exceeded five years.
- Comment 4** The Authority's proposed procedures are responsive to the recommendation but given the planned quarterly sample, the Authority will need to ensure that its sample size complies with the minimum sample size requirements specified by 24 CFR (*Code of Federal Regulations*) 985.2(b).
- Comment 5** Although Authority officials maintain that its Family Self-Sufficiency Coordinator provided year end escrow update letters, these letters were not always documented in the participants' file. In addition, documented letters did not always include all required information, such as the beginning balance, any amount credited or deducted during the period, and interest earned on the account.

Appendix C

SCHEDULE OF PARTICIPANT ESCROW ACCOUNT BALANCES AS OF NOVEMBER 28, 2008

Participant	Balance calculated by Authority	Balance calculated by HUD OIG	Amount underfunded	Amount overfunded
Active:				
1	\$ 5,501	\$14,029	(\$ 8,528)	
2	135	1,340	(1,205)	
3	1,774	11,708	(9,934)	
4	3,995	8,360	(4,365)	
5	19,064	18,526		538
6	315	1,166	(851)	
7	117	3,544	(3,427)	
8	1,287	4,991	(3,704)	
9	1,678	0		1678
10	1,474	24		1,450
11	1,577	1,774	(197)	
12	465	558	(93)	
13	0	21	(21)	
14	0	0		
15	0	0		
Total active	\$37,382	\$66,041	(\$32,325)	\$3,666
Inactive:				
1@	\$ 6,440	\$1,633		\$4,807
2*	7,001	7,330	(\$329)	
3*	749	0		749
4*	8,400	11,863	(3,463)	
5@	1,486	4,285	(2,799)	
6@	2,739	2,771	(32)	
7@	5,430	5,878	(448)	
8	6,679	6,904	(225)	
Total inactive	\$38,924	\$40,664	(\$7,296)	\$5,556
Grand total	\$76,306	\$106,705	(\$39,621)	\$9,222

* Escrow account forfeited.

@ Graduate