



**U. S. Department of Housing and Urban Development**  
*Office of Inspector General*  
26 Federal Plaza, Room 3430  
New York, NY 10278 0068

May 12, 2003

MEMORANDUM NO.:  
2003-NY-1801

MEMORANDUM FOR: Carmen Valenti, Director, Public Housing Division, 2FPH

*Alexander C. Malloy*

FROM: Alexander C. Malloy, Regional Inspector General for Audit, 2AGA

SUBJECT: Union County Division of Community Development  
Section 8 Housing Assistance Program, and  
Community Development Block Grant Program  
Union County, New Jersey

### **INTRODUCTION**

We completed a limited review of the Union County Division of Community Development (also referred to as the County) pertaining to the administration of its Section 8 and Community Development Block Grant (CDBG) programs. We completed the fieldwork in June 2002, but postponed the issuance of this audit memorandum until the completion of a related criminal investigation. The objectives of the review were to determine: (1) the cause of a misappropriation of Section 8 funds; (2) the total amount of Section 8 funds misappropriated; (3) if CDBG rehabilitation funds were misappropriated; and (4) whether the County has procedures in place to monitor the activities of the consultants that is currently administering its Section 8 Program.

### **METHODOLOGY AND SCOPE**

To accomplish our objectives, we reviewed and evaluated information on documents and records of the County, a former consultant, an Independent Public Accountant (IPA), and the U.S. Department of Housing and Urban Development's (HUD) New Jersey Field Office. The review was conducted between August 2001 and June 2002, and covered the period between January 1, 2000 and July 31, 2001. As deemed necessary, we also reviewed documentation from periods prior and subsequent to the period we reviewed. This audit memorandum contains two findings with recommendations for corrective action.

## BACKGROUND

### Section 8 Program

Union County's Division of Community Development (also referred to as the County) has oversight responsibility for Union County's Section 8 Program. During the period, January 1, 2000, through May 31, 2001, the County engaged two consultants (the New Jersey Department of Community Affairs and Rehabco, L.L.C.) to administer and handle the day-to-day operations of its Section 8 Program. Each consultant was responsible for the administration of a portion of the County's Section 8 Program.

During the period reviewed, Union County's Section 8 Program consisted of 371 units. The New Jersey Department of Community Affairs administered a total of 101 units under the Certificate Program, and Rehabco L.L.C., administered the remaining 270 units (21 certificates, and 249 vouchers). The overall breakdown was as follows:

<u>Section 8 Program</u>	<u>Program Number</u>	<u>Units Authorized</u>
Certificates	NJ 39-E-113-002/003	122
Vouchers	NJ 113-V009/10/11/12/13/14	<u>249</u>
Total Units		<u>371</u>

### Community Development Block Grant Program

Union County uses Community Development Block Grant (CDBG) funds to provide rehabilitation loans to individuals. One of its programs is the Multi-Jurisdictional Housing Rehabilitation Program (MJHR), which provides assistance to owners who occupy low and moderate-income households. The MJHR Program provides direct subsidy loans at one percent interest for housing rehabilitation costs ranging from \$15,000 to \$20,000 per loan. Union County's Division of Community Development has the overall responsibility for this program; however, as with its Section 8 Program, the County engaged the services of consulting firms (Rehabco, L.L.C., and Planners Diversified) to administer the day-to-day activities of this program. Participating New Jersey municipalities include Berkeley Heights, Clark, Fanwood Garwood, Hillside, Kenilworth, Mountainside, New Providence, Roselle, Roselle Park, Scotch Plains, Springfield, Summit and Westfield. The County provided funding under this program as follows:

<u>Consultants</u>	<u>1998</u>	<u>1999</u>
Rehabco, L.L.C., (10 units in 1998, and 38 units in 1999)	\$184,211	\$700,000
Planners Diversified, (28 Units)	<u>515,789</u>	
Totals	<u>\$700,000</u>	<u>\$700,000</u>

Regarding the misappropriation of Section 8 funds by an employee of a former consulting firm (Rehabco, L.L.C.) the Office of Investigation of HUD's Office of Inspector General (OIG), the U.S. Postal Inspection Service, and the U.S. Attorney's Office conducted an investigation during the same period we performed our review. The investigation proved that federal funds of the County's Section 8 Program were misappropriated. Thus, on December 16, 2002, in Federal

District Court for the District of New Jersey, an employee of one of the former consulting firms pled guilty to two counts of mail fraud, and to embezzling over \$200,000 from the Union County Section 8 Program and from various Section 8 tenants, between March 2000 and May 2001. The employee was sentenced to 27 months in prison, to run concurrently on each count, and three years probation. Also, the employee was ordered to pay \$212,170 in restitution, of which \$209,470 is to be paid to HUD. The balance of \$2,700 represents funds the employee inappropriately obtained directly from Section 8 tenants.

## **Results of Review**

The review disclosed that an employee of a former consulting firm, which administered a portion of the County's Section 8 Program, embezzled over \$200,000 of the program's funds; and that the existence of various program participants is questionable. The review also disclosed that the County did not submit the required Section 8 year-end settlement forms to HUD, for the years ended December 31, 2000, and 2001. This occurred because the County completely relied on consultants to administer its Section 8 Program, and because one consultant did not maintain adequate program records. As such, the County failed to properly monitor the consultants to ensure adherence with program requirements, and to obtain assurances that funds were being properly safeguarded. Specifically, the County did not ensure that the Section 8 Housing Assistance Payments (HAP) disbursed to landlords were proper, and that the administrative fees paid to consultants were earned. As a consequence, Section 8 funds were embezzled, resulting in the associated costs of \$209,470 being ineligible. Also, HAP costs of \$73,165 are being questioned due to inadequate supporting documentation (See Appendix A). The details pertaining to the deficiencies in the Section 8 Program are described in the two findings contained in this memorandum.

Additionally, the review disclosed that the County currently has procedures in place to monitor the activities of the consultants currently administering its Section 8 Program, and that there were no indications that funds under the County's CDBG rehabilitation program were misappropriated.

We discussed the results of our review with County officials during our review and at an exit conference held on April 15, 2003. The County provided us with their written response to the findings, which we included in its entirety as Appendix B to this memorandum. We also provided a summary and an evaluation of the County's responses at the end of each finding.

## Ineligible and Unsupported Section 8 Program Costs

Our review disclosed that an employee of a former consulting firm, which administered a portion of the County's Section 8 Program, embezzled over \$200,000 of the program's funds; and that the existence of various program participants is questionable. We believe this occurred because the County completely relied upon consulting firms to administer its Section 8 Program without adequately monitoring the activities of the consultants. As a result, \$282,635 of Section 8 funds were improperly used to make Housing Assistance Payments (HAPs) to an employee of a former consultant (Rehabco, L.L.C.) and to landlords whose existence are questionable. Thus, we consider \$209,470 of those payments, which were embezzled, to be ineligible, and \$73,165 to be unsupported pending an eligibility determination by HUD. Regarding the ineligible costs, we recommend that the County be instructed to reimburse the program the amount of the ineligible cost and develop procedures to ensure that the consultants currently administering its Section 8 Program are thoroughly monitored for compliance with program requirements and regulations.

### Criteria

Attachment A of OMB Circular A-87, Section A(2)(a to c), entitled Policy Guides, provides that Governmental units are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices. The grantee assumes the responsibility to ensure that federally assisted program funds are expended and accounted for consistent with underlying agreements and program objectives. Each grantee organization, in recognition of its unique combination of staff facilities and experience has the primary responsibility to employ whatever form of organization and management techniques are necessary to assure proper and efficient administration of Federal awards.

In addition, we believe that prudent business practices require that the services of a consultant, hired to administer program activities, be monitored to ensure compliance with all applicable program requirements and regulations.

**Section 8 costs of \$209,470 are ineligible, and \$73,165 are unsupported**

Our review of the County's Section 8 Program disclosed that disbursements of Section 8 funds, totaling \$282,635, were improperly used to make HAPs to either an employee of a former consulting firm, or to landlords whose existence is questionable. Therefore, we consider \$209,470 of those payments to be ineligible, and \$73,165 to be unsupported pending an eligibility determination by HUD (See Appendix A). The details are provided below:

## Ineligible Section 8 HAP Disbursements

For many years, the County used the same consultant to administer its Section 8 Program. However, on December 12, 1999, the County's Community Development Division awarded contracts to two different consultants to separately administer parts of its Section 8 Housing Assistance Program, which consisted of 371 units. One firm was hired to administer 101 units and the other to administer 270 units. The firm in question (Rehabco, L.L.C.) was contracted to administer the 270 units, consisting of 249 vouchers and 21 certificates, for the period from January 1, 2000, through December 31, 2000. On December 20, 2000, this firm's contract was extended for services to be provided on a month-to-month basis commencing January 1, 2001, and ending June 30, 2001.

**County contracted with and completely relied on consultants to administer its Section 8 Program**

Instead of monitoring the activities of the consultants, we noted that the County completely relied on the consultants to administer its Section 8 Program's activities in compliance with program requirements and regulations. In our opinion, monitoring not only serves to deter program abuse by program administrators, but also serves to detect improprieties timely. Consequently, we believe the County's failure to properly monitor the consultants put the program in jeopardy of being abused. For example, in April 2001 the County received numerous phone calls from its bank regarding overdrafts in the bank account of the Section 8 Program, which was established by one of the Section 8 consultants. Furthermore, the County realized that this consultant disbursed excess cash from the Section 8 Program bank account, which were funds that may have been due HUD because of overpayments to the County. As a result of known problems with the consultant, the County's Director of Community Development issued a memorandum dated April 23, 2001, to the Deputy County Manager highlighting the many concerns that the Community Development staff had with the administration of the Section 8 Program by this consultant. Some of the concerns were as follows:

**Numerous problems developed with the consultant**

- There were numerous complaints about the consultant from landlords and tenants.
- The consultant regularly filed inaccurate reports, including year-end closeout reports.
- The consultant continuously circumvented the Community Development Office.

- The consultant used reserve funds without HUD’s approval.

**In May 2001, the consultant was terminated**

Because of serious financial discrepancies and programmatic problems with this consultant, the County’s Legal Department decided to terminate the agreement with the consultant. As such, the last Section 8 payment was made to this consultant in May 2001. Our review disclosed that for the period between January 1, 2000, and May 31, 2001, this consultant received a total of \$3,110,464 in Section 8 funds, as follows:

Housing Assistance Payments:

	<u>Year 2000</u>	<u>Year 2001</u>	<u>Total</u>
Voucher	\$1,812,396	\$785,259	\$ 2,597,655
Certificate	\$ 145,608	\$ 36,402	\$ 182,010
Sub total	<u>\$1,958,004</u>	<u>\$821,661</u>	\$ 2,779,665

Administrative Fees:

	<u>Year 2000</u>	<u>Year 2001</u>	
Voucher	\$215,554	\$ 92,524	\$ 308,078
Certificate	\$ 18,179	\$ 4,542	\$ 22,721
Sub total	<u>\$233,733</u>	<u>\$ 97,066</u>	\$ 330,799
		<b>Grand Total:</b>	<b><u>\$3,110,464</u></b>

**The County contacts HUD’s Office of Inspector General**

In May 2001, officials of the County’s Community Development Division and their Independent Public Accountant (IPA) contacted the HUD’s Office of Inspector General because they believed that an employee of this consultant firm might have misappropriated Section 8 funds. Specifically, the IPA discovered that over \$200,000 in Section 8 payments were made to an employee of the terminated consultant. Based on this information, we began a limited review of the County’s Section 8 Program.

**\$209,470 in Section 8 disbursements are considered ineligible**

During our review, we analyzed all disbursements of the County’s Section 8 Program for the period January 1, 2000, through May 31, 2001. This involved reconciling funds from HUD to the County, and from the County to the consultants. Regarding disbursements made by the consultant in question, we obtained the consultant’s bank statements with canceled checks and sorted all disbursements by vendor. During our attempt to determine the validity of the disbursements and whether they were properly supported, we found that HAPs were disbursed to various questionable landlords. Furthermore, we confirmed the County’s IPA finding that funds were disbursed to an employee of the terminated consultant. As a result, we believe that the costs associated with the Section 8 funds that were disbursed to this employee, in the amount of \$209,470, should be considered ineligible

Subsequent to the completion of our field work, an employee of the former consultant in question pled guilty in Federal District Court of New Jersey to two counts of mail fraud, and admitted embezzling over \$200,000 from the County's Section 8 Program and from various Section 8 tenants from March 2000 to May 2001. This individual was sentenced to 27 months in prison on each count, to run concurrently, and three years probation. Also, this individual was ordered to make restitution to HUD in the amount of \$209,470.

Regarding the above, we believe that the program lost those funds due to the County's failure to adequately monitor this consultant. Therefore, to immediately make the Section 8 Program whole, we believe that the County should be required to reimburse the Section 8 Program the amount of the ineligible costs from non-Federal funds. Then, as the employee of the former consulting firm reimburses HUD, HUD should reimburse the County.

#### Payments To Landlords Whose Existence is Questionable

We also found payments to landlords that were unsupported. Specifically, we found that in June 2001, after various financial problems came to light and the contract related to the consultant in question was terminated, the County managed the Section 8 Program until a new consultant was brought on board in July 2001. Because of inadequate record keeping by the terminated consultant, the County attempted to verify the existence of all landlords participating in its Section 8 Program. Therefore, the County sent a letter in June 2001 to each landlord on the County's Landlord Check Register Master list requesting the landlord to personally visit the County's Community Development Office and present proper identification, along with supporting documentation, in order to receive his/her monthly HAP check. Among other documentation, landlords were required to present evidence of ownership of the rental property (property deed, mortgage or tax bills, etc.), and the tenant's lease. On June 15 and 29, 2001, the County disbursed HAP checks to landlords, after examining evidence of property ownership and obtaining landlords personal signatures. This process was done to ensure an orderly transition of the program to another consultant and to help establish and maintain accurate records.

**County instructs  
all landlords to  
personally pick up  
their HAP checks**

**12 landlords did not claim their HAP checks**

When the County’s landlord verification examination ended, 12 purported landlords had neither picked up nor called to claim their Section 8 HAP checks. Therefore, the County stopped making payments to those landlords. It appeared that those landlords entered and exited the County’s Section 8 Program during the same period the consultant in question was administering a portion of the County’s Section 8 Program. We learned that one of the purported landlords was the former employee who admitted to embezzling over \$200,000. The remaining eleven landlords, whose existence is questionable, received HAPs totaling \$73,165 during the period between January 1, 2000, and May 31, 2001. Accordingly, we consider HAPs totaling \$73,165 to be unsupported. As such, we recommend that the County be required to submit supporting documentation to HUD explaining why payments were made to those landlords, so that an eligibility determination can be made. If support cannot be provided, HUD should deem those payments ineligible and instruct the County to reimburse the \$73,165 to the Section 8 Program from non-Federal funds. In addition, we believe that the consultant that administered this phase of the County’s Section 8 Program should be required to reimburse any administrative fees related to ineligible HAPs.

**\$73,165 in Section 8 disbursements is considered unsupported**

In summary, the County may delegate the administration of its entire Section 8 Program to consultants. However, the County still remains accountable for the administration and monitoring of the consultants to ensure compliance with program requirements and regulations. Contrary to this, we found that the County did not have the proper monitoring mechanisms in place. As a result, program funds have been used in an improper manner, hampering the County’s objective of assisting low-income families to secure affordable housing.

**County comments**

The County stated that in response to the unfortunate circumstances surrounding the theft of Section 8 funds, the Division of Planning & Community Development has been reorganized into two distinct units, the Bureau of Housing and the Bureau of Community Development. In addition, an Assistant County Counsel has been assigned as permanent liaison to the Bureau of Housing, and the County’s Board has adopted a resolution incorporating internal control procedures for the Section 8 Program.

The County acknowledges that an employee of the former consultant admitted to embezzling \$209,000; however, there has been no finding that the County improperly retained any of those funds. Additionally, OIG’s recommendation that the County be



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responsible to reimburse HUD the \$209,000 is inconsistent with the courts ruling that the former employee is required to make reimbursement directly to HUD. As such, this will place an unwarranted burden upon the innocent taxpayers of Union County, since the reimbursement is to be made from non-Federal funds.

As to the remaining \$73,165 for which there are no supporting documents, the County requested a period of 120 days to determine if any of the questioned eleven landlords can be substantiated before HUD makes a final determination. Since the County was not in possession of its documents and had not been advised at the time of the identity of the eleven landlords; it is the intention of the County to retain the services of an Independent Auditor to reconstruct missing records.

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OIG review of the  
County's comments

Since our review disclosed that the County did not have the proper monitoring mechanisms in place, we believe the County has taken positive corrective actions reorganizing and designating monitoring responsibilities to the Bureau of Housing and by adopting a resolution incorporating internal control procedures for the Section 8 Program.

In response to the County's position on our recommendation that the County reimburse its Section 8 Program the amount of ineligible HAPs, we revised recommendation 1A. While we still recommend that the County reimburse the Section 8 Program from non-Federal funds, for the amount of ineligible HAPs, we further recommend that as the former consultant's employee reimburses HUD, HUD should reimburse the County.

We agree with the County's intention to retain the services of an Independent Auditor to reconstruct missing records and determine whether the questioned \$73,165 can be substantiated. However, since the HUD field office is responsible for and will work with the County to resolve the audit findings, any requests for extensions should be addressed to the appropriate HUD field office officials.

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**Recommendations**

We recommend that HUD, the Director, Public Housing Division, Newark Field Office, instruct the County to:

- 1A. Reimburse the amount of the ineligible costs, totaling \$209,470, to the Section 8 Program from non-Federal funds. Then, as the former consultant's employee reimburses HUD, HUD should reimburse the County.
- 1B. Determine whether the unsupported HAPs of \$73,165, were disbursed to legitimate landlords. If not, HUD should declare the payments ineligible and instruct the County to reimburse all ineligible amounts to the Section 8 Program from non-Federal funds.
- 1C. Require the consultant that administered this phase of the County's Section 8 Program to reimburse any administrative fees related to all ineligible HAPs.
- 1D. Develop and submit to HUD for approval a monitoring plan to ensure that consultants that administer the County's Section 8 Program are adequately monitored for compliance with Section 8 Program requirements and regulations.

## The County Did Not Submit The Required Year End Settlement Forms To HUD

Contrary to HUD regulations, the County did not submit the required year-end settlement forms to HUD for the years ended December 31, 2000, and 2001. As a result, the County did not provide HUD the proper assurance that Section 8 Housing Assistance Payments (HAPs), totaling \$2,779,665, disbursed to landlords under its Section 8 Program were proper, and that administrative fees, totaling \$330,799, paid to the consultants were earned. This occurred because the County completely relied on consultants to administer its Section 8 Program, and because of inadequate records maintained by one consultant. Since HUD provided the County funds based on estimated subsidies and administrative fees needed, we recommend that the County be required to submit the year-end settlement forms to HUD so that HUD can reconcile the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and administrative fees earned.

### Criteria

HUD Handbook 7420.10G, Voucher Program Guide Book, paragraph 20.11 provides that the Public Housing Authority (PHA) will requisition payments during the year from HUD based upon estimates of subsidy and administrative fees needed. The year-end settlement process reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and administrative fees earned. All excess funds are to be returned to HUD.

The above paragraph also provides that the year-end settlement form is form HUD 52681, Voucher for Payment of Annual Contributions and Operating Statement, and that a PHA must provide a schedule disclosing the calculation of administrative fees earned. It also provides that the forms must be completed and submitted to HUD within 45 calendar days of the end of the PHA's fiscal year.

In addition, Title 24 CFR, Part 887.103 (c) and HUD Handbook 7420.7, Chg-8, paragraph 8-3, provides that the PHA's ongoing administrative fee is based on the number of units under HAP contract on the first day of each month, and that the amount of the administrative fee actually earned is determined at the end of the fiscal year as part of the year-end settlement process.

### Year-end settlement forms were not submitted to HUD

Our review disclosed that for the years ended December 31, 2000, and December 31, 2001, the County had not submitted its year-end settlement forms to HUD. During these years the County had relied completely on its consultants to administer its Section 8 Program.

However, we learned that because the County had many concerns with the financial records of one of the consultants (see Finding No. 1), the County was not able to reconcile and prepare the year-end settlement forms. Consequently, the County has not been able to assure HUD that all estimated Section 8 assistance payments made were proper and that administrative fees paid to the consultants that administered the Section 8 Program were earned.

County officials stated that they are working diligently to gather the necessary information needed to complete these forms. However, we believe that during the preparation of the forms, the County should make all adjustments for ineligible HAPs and associated administrative fees paid. This would require the County to adequately verify the actual units under lease per month to determine eligible HAPs, and to ensure that administrative fees are computed based only on units under lease. These forms should then be submitted to HUD, so that HUD can perform a comparison of the amount of funds provided based on estimated expenditures to actual costs. All excess funds are to be returned to HUD.

County comments

The County does not dispute noncompliance with HUD regulations; the year-end settlement forms for Fiscal Years 2000 and 2001 have not been submitted. The County paid the consultants 100% of the administrative fee under contract requisition with HUD and relied completely on the consultants to provide documentation for the HAP and administrative fee compilation. The County desires to provide HUD with all year-end settlement forms and supporting documentation. However, since the County anticipates retaining the services of an Independent Auditor to reconstruct the files and financial documents in an attempt to reconcile the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and administrative fee earned; the County requests an additional 120 days to close out these remaining issues.

OIG review of County comments

We found that the County was not able to reconcile and prepare the year-end settlement forms. Consequently, the County has not been able to assure HUD that all estimated Section 8 assistance payments made were proper and that administrative fees paid to the consultants were earned. However, we believe that the County is taking positive steps to ensure the preparation of the settlement

forms by retaining professional services to provide assistance. However, as previously noted in Finding 1, since HUD's Newark Field Office is responsible for the resolution of the audit finding; the County should forward its request for a 120-day extension to the appropriate HUD official in HUD's Newark Field Office.

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## Recommendations

We recommend that HUD, the Director, Public Housing Division, Newark Field Office, instruct the County to:

- 2A. Submit the year-end settlement forms for the fiscal years ended December 31, 2000, and December 31, 2001 to HUD, so that HUD can perform the year-end settlement reconciliation of amounts requisitioned based on estimated financial needs to the total amount of actual HAPs and administrative fees earned. In reconciling these years, HUD should consider ineligible HAPs in Finding 1 and ensure that the County reimburses all excess funds disbursed.
- 2B. Develop procedures to ensure that information obtained from consultants administering its Section 8 Program is accurate and complete, prior to submitting it to HUD in reports.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions, please contact Edgar Moore, Assistant Regional Inspector General for Audit at (212) 264-8000, extension 3976.

## SCHEDULE OF INELIGIBLE AND UNSUPPORTED COSTS

<u>Finding Number</u>	<u>Ineligible Costs (1)</u>	<u>Unsupported Costs (2)</u>
1	\$209,470.00	\$73,165.00
2	-	-
TOTALS	<u>\$209,470.00</u>	<u>\$73,165.00</u>

- (1) Ineligible costs are costs charged to a HUD-financed or 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 costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. The decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.



# COUNTY OF UNION

DEPARTMENT OF ECONOMIC DEVELOPMENT

*James Daley, Director*

April 15, 2003

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CHOSEN FREEHOLDERS**

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*County Counsel*

Mr. Alexander C. Malloy  
Regional Inspector General for Audit  
U.S. Department of Housing & Urban Development  
Office of Inspector General  
26 Federal Plaza, Room 3430  
New York, New York 10278-0068

Dear Mr. Malloy:

The County of Union received the draft memorandum containing the two tentative findings developed from the audit done by your office on the Department of Economic Development/Bureau of Housing – Section 8 Housing Assistance (Sec. 8) and Community Development Block Grant Programs(CDBG)/Multi-Jurisdictional Housing Rehabilitation (MJHR).

We desire that contents of the attached memorandum be included in your office's final memorandum to the U.S. Department of Housing & Urban Development (HUD), New Jersey State Office of Public Housing Division Director Carmen Valenti.

Thank you for your continued courtesies.

Respectfully yours,

PRESIDENT CARLISLE, JR.  
Bureau Head of Housing

PC/deb  
Enclosure

DIVISION OF PLANNING & COMMUNITY DEVELOPMENT

*Administration Building*  
Elizabethtown Plaza Elizabeth, NJ 07207 (908) 527-4229 fax (908) 352-3980 [www.ucnj.org](http://www.ucnj.org)

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## COUNTY OF UNION

### **COUNTY OF UNION PROPOSED MEMORANDUM TO SEC. 8 AUDIT (O.I.G.)**

In response to the unfortunate circumstances surrounding the theft which is the subject matter of this audit; the County of Union has taken the extraordinary step of reorganizing the Division of Planning & Community Development. The Division was divided into two distinct units, the Bureau of Housing (B.H.), and the Bureau of Community Development (C.D.).

The Bureau of Housing is responsible for housing related activities; such as housing rehabilitation, Sec. 8 Housing Assistance Payments, Home Investment Partnership and other HUD funded County of Union projects. The reorganization was complete in July, 2002 with the appointment of the Bureau Head of Housing.

This step was the initial change to develop oversight of the Housing Choice Voucher Program/Sec. 8. The Bureau of Housing is responsible for monitoring and evaluation the activities of the consultant that is currently administering the program. Specifically, the Bureau of Housing has procedures to ensure adherence with program requirements and has assurances that funds are properly safeguarded.

On a monthly basis, prior to the release of Housing Assistance Payments Funds a copy of the HAP register for the month is forwarded to Bureau of Housing staff for review and subsequent approval. The register includes landlord information, tenant information, notes any changes to rents, unit size, location and other information from





## COUNTY OF UNION

previous monthly request. The register must reflect the actual HAP payments per month; only then will a check be released for that specific amount. This register is reviewed by the Department of Finance and Bureau of Housing program staff before a check is processed to the consultant for HAP payments to income eligible clients. All such requisitions require three (3) signatures for approval. There are monthly site visits to the consultant to review files and reconcile books, cancelled checks and review account information.

The program consultant is paid according to the monthly documentation submitted on the actual tenant/landlord roster of active HAP contract amounts due per unit under lease. Each month the consultant must submit a bank statement followed by a reconciliation statement. Both programmatic and financial review enables the County of Union to have better control over the consultant and program. To assist our new consultant the County of Union has purchased HAPPY software to aide in the overall management of the program, as well as help track key SEMAP indicators, timely reexaminations, correct rent calculations, annual Housing Quality Standards (HQS) inspections, etc.

In addition to the foregoing changes the County of Union County Counsel's Office has been intimately involved in the monitoring and evaluations process and an assistant county counsel has been assigned as permanent liaison to the Bureau of Housing. In addition to all monitoring and evaluation efforts noted earlier, the County of Union Board



## COUNTY OF UNION

of Freeholders adopted a Resolution incorporating "Internal Control Procedures for the Department of Housing & Urban Development Section 8 Program". Attached hereto and marked as Exhibit A.

As to the specific findings and recommendations contained in the OIG report they shall be addressed in order consistent to the memorandum.

#1: County of Union acknowledges that the employee of the former consultant admitted to embezzling the sum of \$209,000.00. There has been no finding that any of those sums were improperly retained by the County of Union. Additionally, the Honorable Alfred Wolin has specifically ordered as part of the former employee's sentencing that she is required to reimburse that sum directly to HUD. This is inconsistent with the recommendation of the OIG that the County of Union be responsible to reimburse HUD for the sum of \$209,000.00, and will place an unwarranted burden upon the innocent taxpayers of Union County, since the reimbursement is to be made from non-Federal Funds.

As to the remaining \$73,165.00 for which there are no supporting documents it appears that eleven (11) landlords are in question. Due to the fact the County of Union was not in possession of its documents and has not been advised at this time as to the identity of the eleven (11) landlords in question, the County of Union can not adequately respond to this finding. Therefore, the County of Union requests an opportunity to further investigate whether or not it may be able to substantiate these payments.



## COUNTY OF UNION

It is the intention of the County of Union to retain the services of an Independent Auditor to assist in the reconstruction of the missing financial records. Based on the aforementioned, the County of Union anticipates that this procedure will take approximately one hundred twenty (120) days. Therefore, we hereby request one hundred twenty (120) days to determine if any of the questioned unsupported seventy three thousand one hundred sixty-five dollars (\$73,165) can be substantiated before HUD makes it's final determination.

It is the intent of the County of Union to inform the former consultant that they are to reimburse any administrative fees to all ineligible HAP costs.

#2: The County of Union cannot dispute noncompliance with HUD regulations, year end settlements for Fiscal Year 2000 and Fiscal Year 2001 have not been submitted. Therefore HUD does not have the proper documentation, (Form 52681) "Voucher for Payment of Annual Contributions & Operating Statement" and/or an Administrative Fee Schedule, to determine whether HAP disbursed to landlords/tenants and/or if administrative fees paid to the consultant were proper. The County of Union paid the consultant 100% of the administrative fee under contract requisition with HUD and relied completely on the consultant to provide documentation for the HAP and administrative fee compilation. The consultant did not reconcile disbursements and maintained an inadequate check register, fictitious files and manipulated records. The County of Union desires to provide HUD with all year end settlements required forms



## COUNTY OF UNION

and supporting documentation, the client files, bank statements/checks and other documentation were delivered in boxes to HUD-OIG in July, 2001. The boxes and other documentation were returned to the County of Union in March 2003.

The County of Union has received a proposal for professional services from an independent auditor who is a certified accountant and who has previously submitted formal audits to HUD for troubled Public Housing Agencies. We anticipate entering into a formal agreement to retain his firm's services no later than May 1, 2003. The goal of this audit is to review and reconstruct the files and financial documents returned by OIG to the County of Union. The review will incorporate the formal recommendations of the exit conference and audit memorandum submitted by the OIG-Regional Inspector General. The independent auditor retained, with assistance from the County of Union Department of Economic Development's Division of Planning & Community Development/Bureau of Housing, County Counsel, Department of Finance and approval from the Union County Board of Chosen Freeholders, will reconstruct files and documentation and attempt to reconcile the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and administrative fee earned.

In order to satisfy the above, the County of Union is hereby requesting an additional 120 days to close out these remaining issues.