



Issue Date September 27, 2004

Audit Case Number 2004-NY-1005

TO: Walter Kreher, Director, Multifamily Program Center, 2FHM

Alexander C. Malloy

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

SUBJECT: Jersey City Housing Authority
Section 8 Contract Administrator
Jersey City, New Jersey

INTRODUCTION

We have completed an audit of the Jersey City Housing Authority's (JCHA) performance as contract administrator for the Section 8 program at the Arlington Arms and Audubon Park Apartments projects. Our objective was to determine whether JCHA as contract administrator ensured that Section 8 rental subsidies were accurate and that the rental units complied with Housing Quality Standards of the U.S. Department of Housing and Urban Development (HUD). We initiated this audit as part of our plan to address the integrity of Section 8 rental assistance payments.

To accomplish our objective, we interviewed JCHA staff responsible for the administration of the project-based Section 8 program and project management staff responsible for carrying out the Section 8 activities at the projects. We reviewed HUD project files and JCHA monitoring and accounting records supporting housing assistance payments to the projects. We also reviewed the requirements in HUD Handbook 4350.5, "Subsidy Contract Administration and Field Office Monitoring," and HUD Handbook 4350.3, "Occupancy Requirements of Subsidized Multifamily Housing Programs."

Additionally, we selected a nonrepresentative sample of 23 units, representing 10 percent of the units at each project, to be inspected by a HUD inspector for compliance with Housing Quality Standards. We also selected a nonstatistical sample of 33 tenants from the rent rolls, representing 15 percent of all tenants, to assess the accuracy of tenant eligibility and rental subsidy calculations.

The audit covered the period January 1, 2002, through December 31, 2003. The audit fieldwork was performed during the months of March 2004 through May 2004. We conducted the audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06, REV-3, within 60 days, please provide us, for action taken (1) the proposed corrective action and the date to be completed; or (2) 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.

Should you or your staff have any questions, please contact John Harrison, Assistant Regional Inspector General for Audit, at (212) 264-4174.

SUMMARY

We found that JCHA did not establish sufficient controls to carry out its Section 8 contract administrator responsibilities to ensure that claims were properly reviewed and paid, units met Housing Quality Standards, and tenant certifications complied with HUD regulations. As a result, JCHA (1) paid ineligible and erroneous claims, (2) failed to ensure that units met Housing Quality Standards, and (3) did not ensure that projects were properly determining and documenting tenant eligibility. Consequently, we believe that JCHA inadequately performed its contract administrator responsibilities for the Section 8 program at Arlington Arms and Audubon Park Apartments; thus we question whether JCHA earned the fees, which totaled \$227,860, it was paid as contract administrator.

BACKGROUND

HUD executed an Annual Contributions Contract (Contract) with the JCHA to serve as the Section 8 project-based contract administrator for two privately owned HUD-insured projects, Arlington Arms and Audubon Park Apartments. JCHA is a nonprofit corporation organized under the laws of the State of New Jersey to provide housing for qualified individuals in accordance with HUD rules and regulations. JCHA was created by the City of Jersey City. However, JCHA is excluded from the City's reporting entity since the City does not designate management, influence operations, or have responsibility for the fiscal matters of JCHA.

The Contract provides for Housing Assistance Payments (HAP) to private owners of residential units on behalf of eligible low- or very low-income families, covering the difference between the maximum rental on a dwelling unit and the amount of the rent contribution by the participating family and related administrative expense. As contract administrator, JCHA is responsible for administration of Section 8 HAP in accordance with the Contract and HUD regulations and requirements at the two projects consisting of 217 units, 167 at Audubon and 50 at Arlington Arms, and the distribution of approximately \$2.7 million dollars in annual rental assistance. This responsibility includes ensuring the proper payment of monthly project claims, provision of decent

housing in accordance with Housing Quality Standards, and the correct determination of tenant eligibility and rental subsidy. During our audit period, FY 2002 and 2003, JCHA served as contract administrator for only these two projects, for which it was paid \$227,860 in contract administrator fees.

FINDING 1 - JCHA Monitoring Controls Were Inadequate

We found that JCHA did not establish sufficient controls to ensure that Section 8 claims were properly reviewed and paid, units met Housing Quality Standards, and tenant certifications were performed in accordance with HUD regulations. As a result, JCHA (1) paid ineligible and erroneous claims, (2) failed to ensure that units met Housing Quality Standards, and (3) did not ensure that tenant eligibility was properly determined and documented. Consequently, we believe that JCHA inadequately performed as contract administrator for the Section 8 program at Arlington Arms and Audubon Park Apartments and, therefore, question whether JCHA earned the fees it was paid as contract administrator.

Ineligible and Erroneous Claims Were Paid

During a Contract Administration Review in September 2003, HUD identified an improper payment of \$72,000 by JCHA to Audubon Park Apartments on September 4, 2001 for security guard services during the period April 1, 2000, through March 31, 2001. HUD Handbook 4350.3, REV-1, chapter 9-14, entitled "Special Claims," provides that special claims can be approved for claims only for unpaid rent, tenant damages, vacancy losses during and after rent-up, and debt service losses. Also, the HUD Administration Review found that JCHA erroneously paid Arlington Arms Apartments a Special Claim of \$7,582 on September 4, 2001 for vacancies at two unrelated projects during the period May 1, 1999, through November 1, 2000.

On December 1, 2003, HUD requested that JCHA reflect a credit on its Year-End Statement for the ineligible payment to Audubon Park Apartments and the erroneous payment to Arlington Arms. However, JCHA accounting officials advised us that they were unaware of the December 1, 2003 report and request for reimbursement of the \$72,000 in ineligible and \$7,582 in erroneous claims.

Additionally, we found that on October 11, 2002, JCHA paid another special claim in the amount of \$72,000 to Audubon Park Apartments for security guard services during the period March 31, 2002, through March 31, 2003. Thus, at the date of our review, JCHA had made two ineligible payments totalling \$144,000 to Audubon Park Apartments for security guard services, and an erroneous payment of \$7,582 to Arlington Arms Apartments for vacancies at two unrelated projects. We attribute these ineligible and erroneous payments to a lack of adequate controls by JCHA for the review and processing of project vouchers. These amounts should be reimbursed by being reflected as credits on the projects' Year-End Statements.

Units Did Not Meet Housing Quality Standards

All units that we inspected failed the Housing Quality Standards. This occurred because JCHA failed to conduct required project reviews and inspections to ensure that Housing Quality Standards were being met. Additionally, JCHA lacked documentation showing that required inspections were conducted and that an adequate maintenance program existed. Consequently, tenants resided in units that were in violation of Housing Quality Standards, resulting in HAPs being paid for housing units that may not have been decent, safe, and sanitary.

According to 24 CFR Part 982.1(a), Section 8 housing units must be decent, safe, and sanitary, and Part 982.401(a)(1) states that Section 8 housing units must comply with HUD's Housing Quality Standards. Housing Quality Standards address tenant living conditions such as sanitary facilities in proper operating condition (bathrooms and kitchens), painted surfaces, and rodent and pest control. HUD Handbook 4350.5 and the Contract executed between HUD and the JCHA require that units be decent, safe, and sanitary.

Inspections by a HUD inspector of 23 units at the two projects disclosed that all failed to meet Housing Quality Standards. The properties failed to meet Housing Quality Standards based on the physical condition of the exterior structures and interior common public areas and infestation of the units inspected. Specific violations, hazardous conditions, and physical deficiencies observed were

- Rodent and insect infestation penetrated and created harbors of habitation in all apartment units and buildings.
- Poor sanitary conditions existed due to the buildup of trash and garbage around the outside of the buildings; in parking lots; in basement storage areas; and in rooms, hallways, stairwells, and compactor rooms.
- All elevators showed wear and tear, and there were no inspection certificates by a licensed elevator company or State and City inspectors.
- All elevator pits were either flooded or had evidence of recent flooding, and several elevator sump pumps were nonoperational.
- Fire sprinkler heads and fire alarm bells either had paint on them or had been painted over.
- Many fire extinguishers either had expired or had no inspection tickets; some smoke detectors were improperly working; and there was a lack of window guards where applicable, and there were instances of mold.

Our inspections also disclosed that maintenance was predominately done on an emergency, as-needed basis and that some completed maintenance and repairs were incomplete; i.e., plasterwork was not sanded and repainted. We also observed evidence that the locked community room area in one project may have been used as living quarters in violation of local housing codes.

JCHA Did Not Perform Unit Inspections

JCHA contracted with a consulting firm to provide professional technical and training assistance for the Section 8 Rental Assistance Program for the period October 1, 2001, through March 31, 2003. While this contract related primarily to JCHA's own Section 8 program, there was a provision for "management and inspection reviews for JCHA's role as HAP Contract Administrator." However, neither JCHA nor its contractor performed physical unit inspections at the projects for which JCHA was contract administrator.

HUD Handbook 4350.5 CHG-4, chapter 15, section 1, part 15-1, requires contract administrators to provide oversight management of project owners and management agents to assure compliance with the terms of the Section 8 rental subsidy contract, HUD Regulatory Agreement, applicable HUD regulations, and other administrative requirements. Section 4, part 15-9, requires that on-site reviews of HUD-subsidized projects be conducted as an essential aspect of a contract administrator's monitoring. This section further requires that contract administrators perform the following types of on-site project reviews: physical inspections, management reviews, and unit inspections. Further, part (b), article 3.4, of the Contract between HUD and the JCHA as contract administrator requires JCHA to inspect or cause to be inspected dwelling units annually to assure that decent, safe, and sanitary housing accommodations are being provided and that the agreed-to services are being furnished.

The former JCHA Rental Assistance Program Director advised us that the JCHA did not perform annual inspections of the Section 8 units, and neither did its contractor that performed annual Management Reviews and Assessments of the projects. The former Director also stated she was unaware that JCHA was required to conduct inspections.

Project Files Lacked Documentation for Unit Inspections

Our review of project files disclosed that project files lacked documentation that timely unit inspections were conducted by project owners. There was no documentation of a current inspection report for 9 of the 23 units we sampled.

Also, we found that conditions needing maintenance were not always addressed in a timely manner. Analysis of conditions identified during our inspection, compared with conditions noted in HUD Real Estate Assessment Center inspection reports, project work orders, and project inspection reports, disclosed that several HUD Real Estate Assessment Center and management agent conditions had not been repaired and/or corrected at the time of our inspections and that some of these conditions were first identified and reported in 2000. It is our position that had the JCHA performed contractually required inspections, it would have detected that repairs were not being performed.

HAPs Were Paid for Units That Failed To Meet Housing Quality Standards

We believe that HAPs were not used efficiently and effectively because the units for which the payments were made failed to meet Housing Quality Standards. Further, documentation was lacking to support inspections by either JCHA or the projects. Until the projects' units are brought into compliance with Housing Quality Standards, we believe that HUD is not realizing the benefit intended by the HAP. Using 12 months of HAP for the 23 units that failed our Housing Quality Standards inspections, we determined that the associated HAPs for those units totaled \$245,076. We believe that once the units are brought into compliance with Housing Quality Standards, the associated HAPs of \$245,076 for those units will result in funds put to better use.

Determination and Documentation of Tenant Certification Was Improper

We found that tenant eligibility was not always properly determined or documented. Our review of 33 tenant files disclosed that tenant eligibility was properly documented for the 25 tenants reviewed at one project, but of the 8 tenant files we sampled at the other project, documentation of citizenship eligibility for 3 tenants was missing, and one tenant exceeded allowable income limits at both initial certification and recertification. We attribute this to the fact that JCHA did not ensure that all tenants' eligibility was properly determined and documented. Consequently, JCHA has disbursed HAPs to tenants who are ineligible and whose eligibility is not properly documented.

We found one of eight sampled tenants at one project whose income was above allowable limits with no documentation for an exception. HUD Handbook 4350.3, REV-1, chapter 3, provides income guidelines for receipt of Section 8 rental assistance. Owners must determine tenant income eligibility at initial certification, and the tenant family's annual income must not exceed the applicable income limit. Depending upon the effective date of the initial HAP contract for the property, tenant assistance is based upon either the low- or very low-income limit. Projects with initial HAP contracts effective on or after October 1, 1981, must admit only tenants meeting the very low-income limit. Projects with initial HAP contracts prior to October 1, 1981, may admit families up to the low-income limit. Exceptions to income limits may be applicable under limited circumstances. The tenant exceeded the income guidelines at initial certification and at the 2003 recertification. Consequently, JCHA disbursed \$ 12,621 of HAPs for an ineligible tenant during the 2-year period of our review.

At this same project, we found that documentation to determine eligibility based upon citizenship or immigration status was lacking for three of eight tenant files sampled. HUD Handbook 4350.3, REV-1, chapter 3, restricts assistance in subsidized housing to U.S. citizens or nationals and noncitizens who have eligible immigration status as determined by HUD. Owners must obtain a signed declaration of citizenship and may require further verification of the declaration through presentation of a U.S. birth certificate or passport. A signed declaration of eligible noncitizen status and proof of age are required from noncitizens 62 years of age and older, and from noncitizens under the age of 62, a signed declaration of eligible immigration status, a signed consent form, and

an approved Department of Homeland Security document are required. Consequently, associated HAPs of \$60,320, which were disbursed by JCHA during the 2-year period of our review, are questioned as unsupported costs pending an eligibility determination by HUD.

A February 20, 2003 Management Review and Assessment, for which JCHA had contracted, found that eligibility and/or income documentation was not adequate in two of nine tenant files reviewed at this same project. The contractor recommended that “Management must ensure that the Tenant Declaration Formats required by HUD are correctly completed indicating that the applicant meets with the documentation requirements of citizenship or eligible immigrant status.” However, while the JCHA former Rental Assistance Program Director advised that the project was requested to respond in writing to the issues raised, a response was not received, and JCHA had not conducted follow-up monitoring.

In addition, we found inadequate documentation in one tenant file for other income consisting of a utility credit. There was no documentation in the tenant file to show that this income was verified prior to including it to calculate the HAP. The project manager did not know how the credit program operated but advised that there were other tenants receiving the credit. HUD Handbook 4350.3, REV-1, chapter 7, requires owners to recertify tenant income and composition at least annually. Owners must verify tenant annual income, value of assets, expenses related to deductions from annual income, and other factors that affect the determination of adjusted income.

Contract Administrator Fees Paid Do Not Represent Efficient and Effective Expenditures

The conditions that we found—the payment of ineligible and erroneous claims, units that did not meet Housing Quality Standards, and improper tenant certification procedures and documentation—indicate that JCHA failed to institute adequate controls to ensure that the projects operated in accordance with HUD regulations and that HAPs were efficiently and effectively spent. This is further evidenced by the December 1, 2003 HUD Contract Administrator Review Report that rated JCHA performance as below average and requested JCHA to respond to the report’s findings within 30 days. However, HUD had not received a response as of June 1, 2004.

As discussed in this report, the JCHA failed to institute adequate controls to provide assurance that the projects operated in accordance with HUD regulations and that HAPs were efficiently and effectively spent. Consequently, we question whether JCHA earned the \$227,860 contract administrator fees paid to it during the period of our review. In this regard, those fees are considered questioned as unsupported costs pending an eligibility determination by HUD.

AUDITEE COMMENTS

JCHA officials noted that a local city ordinance requires the \$72,000 annual expenditure for security guards at Audubon Apartments, and advised that around 1982, this expenditure was deemed by HUD to be an allowable expense. However, JCHA officials

stated that original documentation to support this agreement has been misplaced or discarded. JCHA officials advised that these claims have been paid since 1982 and provided requests for approval, which were subsequently approved by HUD, for security expense for the years 1990 and 1993 through 1996. Accordingly, JCHA officials do not believe that adjustments to the Year-End Statements for Audubon Park are necessary.

JCHA officials concur that \$7,582 in special claims were paid to Arlington Arms Apartments for two unrelated projects. The project accountant has been requested to submit documentation to show that Arlington Arms actually reimbursed these projects and that the accounts were correctly credited. Accordingly, the Year-End Statements for Arlington Arms Apartments will be adjusted to reflect the correct account activity.

JCHA officials concur with the audit finding that JCHA failed to conduct required project reviews and inspections to ensure the projects' compliance with Housing Quality Standards. The officials explained that in its role as contract administrator, JCHA contracted with a consultant to provide management and inspection reviews. However, JCHA officials noted that the contractor erroneously advised that inspections were no longer required and that copies of inspection reports from Real Estate Assessment Center would be forwarded to the JCHA for follow-up. Consequently, neither the contractor nor JCHA conducted Housing Quality Standards inspections, and copies of Real Estate Assessment Center inspections were not provided to the JCHA for follow-up. JCHA officials recognize the misinformation and will schedule inspections to comply with applicable HUD requirements.

OIG EVALUATION OF AUDITEE COMMENTS

HUD Handbook 4350.3, REV-1, chapter 9-14 provides that special claims can only be approved for claims for unpaid rent, tenant damages, vacancy losses during and after rent-up, and debt service losses. Accordingly, absent a waiver to the cited HUD Handbook, expenditure for security costs are deemed unallowed costs. The HUD Newark Field Office should obtain any documentation for a waiver of the Handbook requirements and determine the appropriate adjustment to be made on the Year-End Statements.

JCHA officials acknowledge that special claims were paid to Arlington Arms for two unrelated projects; however, documentation is needed from Arlington Arms that payments were made to the unrelated projects. Consequently, JCHA officials should forward such documentation to the Newark Field Office so that an eligibility determination and appropriate adjustment to the Year-End Statements can be made.

The actions planned by JCHA pertaining to Housing Quality Standards inspections are responsive to our recommendation; however, we further believe that JCHA needs to establish sufficient controls for its Section 8 contract administrator oversight to provide assurance that Section 8 project units comply with Housing Quality Standards and tenant certifications comply with HUD requirements.

RECOMMENDATIONS

We recommend that the Director of HUD Multifamily Division instruct the JCHA to

- 1A. Submit Year-End Settlement statements to reflect credits for \$151,582, consisting of ineligible special claims of \$144,000 paid at Audubon Park and for an erroneous claim of \$7,582 paid at Arlington Arms.
- 1B. Stop HAPs associated with units for which the Housing Quality Standards violations were identified during our project inspections until project management corrects all Housing Quality Standards violations to assure that the \$245,076 of HAPs associated with units will procure decent, safe, and sanitary housing for tenants.
- 1C. Recover the \$12,621 in HAPs made at Arlington Arms on behalf of the ineligible tenant whose income exceeded program guidelines and determine whether the \$60,320 in HAPs made to three other tenants, who lacked proper documentation to determine eligibility, should be recovered. All ineligible amounts are to be reimbursed from nonfederal funds.
- 1D. Require the project management to implement procedures to ensure that tenant certifications are performed and documented in accordance with HUD Handbook 4350.3 and that routine inspections and a preventative maintenance program are instituted to curtail further deterioration.
- 1E. Establish sufficient controls for its Section 8 contract administrator oversight to comply with HUD Handbook 4350.5, CHG-4, chapter 15, and provide assurance that Section 8 (1) claims are properly reviewed and paid, (2) project units comply with Housing Quality Standards, and (3) tenant certification complies with HUD regulations.

We also recommend that the Director of the HUD Multifamily Program Center

- 1F. Evaluate the performance of JCHA as contract administrator to determine whether it properly earned the \$227,860 contract administrator fee it was paid during Fiscal Year 2002 and 2003. If any of the fee is determined to be ineligible, that amount is to be reimbursed to HUD from nonfederal funds.

MANAGEMENT CONTROLS

Management controls include the plan of organization and methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations and the systems for measuring, reporting, and monitoring program performance.

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

- Controls Over Program Operations
- Controls Over the Validity and Reliability of Data
- Controls Over Compliance with Laws and Regulations
- Controls Over the Safeguarding of Resources

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

Based on our review, we believe that significant weaknesses exist in the following area:

- Controls Over Program Operations
JCHA inadequately performed as contract administrator for the Section 8 program at Arlington Arms and Audubon Park Apartments (Finding 1).

FOLLOW-UP ON PRIOR AUDITS

This is the initial Office of Inspector General (OIG) audit of Jersey City Housing Authority contract administrator function.

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>		<u>Funds Put to Better Use <u>3/</u></u>
	<u>Ineligible <u>1/</u></u>	<u>Unsupported <u>2/</u></u>	
1A	\$151, 582	--0--	--0--
1B	--0--	--0--	\$245,076
1C	12,621	60,320	--0--
1F	--0--	\$227,860	--0--
Totals	<u>\$164,203</u>	<u>\$298,180</u>	<u>\$245,076</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 costs charged to a HUD-financed or HUD-insured program or activity, and eligibility cannot be determined at the time of 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 costs. 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/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented; for example, costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

AUDITEE COMMENTS



Building a Partnership with Communities

JERSEY CITY HOUSING AUTHORITY

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August 30, 2004

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

Dear Mr. Malloy:

Pursuant to your letter of August 3, 2004 and the audit exit meeting with members of your staff on August 25, 2004, the following written comments address your audit findings:

1.) FINDING I – JCHA Monitoring Controls were Inadequate

“During a contract Administration Review in September 2003, HUD identified an improper payment of \$72,000 by JCHA to Audubon Park Apartments on September 24, 2001, for security guard services during the period April 1, 2000, through March 31, 2001.”

JCHA RESPONSE –

The Council of the City of Jersey City adopted Ordinance No. MC-220 on 09/09/1982 (Attachment A). The ordinance addressed the need for security guards in multiple dwellings of one hundred (100) or more dwelling units and required every owner or agent of an owner to furnish one (1) security guard on its premises twenty-four (24) hours a day, seven (7) days a week.

This ordinance was discussed with the owners of Audubon Apartments, the JCHA and HUD Field Office. It was agreed in 1982 or thereabout that the additional expense of employing security guards at Audubon Apartments was an eligible expense and would be billed annually to HUD as a supplemental requisition for funds (HUD Form 52663). Due to the length of time that has passed, approximately 22 years, many of the original HUD documents have been misplaced or discarded.

The JCHA has attached a number of requests for payment and numerous approval letters for this expense as follows:

- 1990 approval by Encarnacion Loukatos, Acting Director, Housing Management Division (Attachment B)

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- 1993 request and approval from Encarnacion Loukatos, Chief, Loan Management Branch (Attachment C)
- 1994 request and approval from Encarnacion Loukatos, Chief, Loan Management Branch (Attachment D)
- 1995 request and approval from Paul Aprigliano, Chief, Asset Management Branch (Attachment E)
- 1996 request and approval from Frank L. Walcott, Chief, Program Support Branch (Attachment F)

2.) **FINDING 2 – JCHA Monitoring Controls were Inadequate**

“Also, the HUD Administration Review found that JCHA erroneously paid Arlington Arms Apartments a Special Claim of \$7,582 on September 4, 2001 for vacancies at two unrelated projects during the period May 1, 1999, through November 1, 2000.”

JCHA RESPONSE –

This payment was not made erroneously but rather mistakenly forwarded to Arlington Arms Apartments due to a letter regarding an address change.

On March 10, 2000, Mid City Associates, a project-based development in Jersey City, sent a letter to the JCHA (Attachment G) requesting that all Section 8 payments for Mid City I, Resurrection House and Arlington Arms be sent to Arlington Arms at 752 Grand Street, Jersey City, NJ 07304.

The Special Vacancy Claims for Mid City I in the amount of \$3,896.64 and for Resurrection House in the amount of \$3,685.80 were submitted for payment. The JCHA unintentionally requested they be paid to Arlington Apartments at the address previously requested rather than requesting that individual checks be made payable to Mid-City I and to Resurrection House.

The memo and attachments all reflected that the payments were for special vacancies for those particular developments. The JCHA has requested that the accountants for Arlington Arms review the transaction and submit copies of the checks forwarded to the Mid City I and Resurrection House accounts to show that those accounts were actually credited with the correct amounts. This information will be provided under separate cover as soon as it is received.

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3.) FINDING 3 – JCHA Monitoring Controls were Inadequate

“On December 1, 2003, HUD requested that JCHA reflect a credit on its Year-End Statement for the ineligible payment to Audubon Park Apartments and the erroneous payment to Arlington Arms.”

JCHA RESPONSE –

As stated on numerous occasions, the JCHA was unaware of this report or request. However, the necessary Year-End statements will be adjusted to reflect the correct account activity related to the payment made to Arlington Arms rather than the separate payments that should have been made to Mid City I and Resurrection House. The payments made to Audubon Park Apartments for security costs were determined by HUD to be eligible expenses. No Year-End adjustments are deemed necessary.

4.) FINDING 4 – JCHA Monitoring Controls were Inadequate

“All units that we inspected failed the HUD HQS. This occurred because JCHA failed to conduct required project reviews and inspections to ensure that HQS were being met.”

JCHA RESPONSE –

JCHA contracted with Quadel Consulting Corporation from July 2000 to the most recent contract, 2003, to provide management (Attachment H) and inspection reviews for JCHA’s role as HAP Contract Administrator. In July 2000, Quadel responded to the task as follows (Attachment I):

“Roberta Graham will provide management reviews for the project-based developments for which JCHA is the contract administrator. These reviews will be completed in accordance with HUD guidelines and requirements, which include maintenance and security, financial management, leasing and occupancy, tenant/management relations, drug-free housing policies and general management practices. While HUD’s physical inspection requirements for Section 8 project based units are changing due to PHAS, Quadel will assure that JCHA meets full compliance with inspection criteria.”

In June 2001, Quadel responded to the task as follows (Attachment J):

“The management reviews will be performed in accordance with HUD guidelines and requirements. HUD now contracts with independent inspectors to perform physical inspections for all subsidized properties. Quadel will determine whether inspections have been performed and the properties for which JCHA is responsible. If inspections have been conducted, Quadel will obtain the inspection results and follow-up as necessary on any deficiencies identified.”

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It was through these contracts with Quadel to provide the JCHA with professional management, technical and training assistance that the JCHA had been erroneously advised that the inspections were no longer required and that copies of inspection reports from REAC would be forwarded to the JCHA for follow-up. Based on this information, HQS inspections were not conducted by the JCHA. Copies of REAC inspections were never made available to the JCHA and, consequently, no follow-up was done.

The on-going requirement for HQS inspections was explicitly explained at the meeting and the JCHA recognizes the misinformation and will schedule inspection of a minimum of 20% of the units. The project review will continue as always on an annual basis with additional emphasis on communication between the JCHA and the site.

Based on the above findings and our responses, the JCHA looks forward to discussions with the HUD Field Office regarding whether the JCHA will continue in the role of Contract Administrator for Arlington Arms and Audubon Park Apartments.

If you need additional information, please contact Mr. R.M. Banks, Acting Director, Section 8 Housing Choice Voucher Program at (201) 547-6683.

Very truly yours,



R. M. Banks
Acting Director: Section 8 Program

For:



Maria T. Maio
Executive Director

RMB/MTM:jw
w/attachments

NO LETTER ONLY TO: John Harrison, Assistant Regional Inspector General for Audit, FAX: 212-264-1400
Karen Campbell, Senior Auditor, FAX: 973-645-4683