
AUDIT REPORT



MOUNT VERNON URBAN RENEWAL AGENCY
Section 8 Housing Choice Voucher Program
Mount Vernon, New York

2006-NY-1004

February 16, 2006

OFFICE OF AUDIT
NEW YORK/NEW JERSEY



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TO: Mirza Negrón Morales, Director, Public Housing Division, 2APH

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

SUBJECT: Mount Vernon Urban Renewal Agency, Mount Vernon, New York, Section 8 Housing Choice Voucher Program Has Administrative and Financial Management Weaknesses

HIGHLIGHTS

What We Audited and Why

We audited the Mount Vernon Urban Renewal Agency's (the auditee) administration of its Section 8 Housing Choice Voucher program because of its designation by the U.S. Department of Housing and Urban Development (HUD) as troubled and our risk assessment, in which it was ranked ninth among public housing authorities in the HUD New York field office jurisdiction.

Our audit objectives were to determine whether the auditee (1) correctly billed HUD for housing choice vouchers used, (2) complied with HUD program requirements for tenant admission, rental subsidy calculations and housing quality standards, and (3) implemented financial management controls to ensure that Section 8 Housing Choice Voucher program funds were adequately safeguarded.

What We Found

The auditee was overpaid Section 8 housing assistance payments and administrative fees because it over-requisitioned funds from HUD. As a result, the auditee was overpaid \$1,165,138 during calendar years 2003 and 2004. To date, HUD has recouped \$604,976 of the overpayments through offsets. In addition, the auditee erroneously reported vouchers administered

under the portability¹ feature as part of its voucher use, which resulted in an additional \$615,781 in unearned administrative fees.

We also found weaknesses in the auditee's administration of its voucher program. The auditee (1) did not properly use or maintain its waiting list, (2) improperly calculated subsidy amounts in 6 of 30 tenant files we reviewed, (3) did not perform tenant recertifications in a timely manner, and (4) failed to document that all units met housing quality standards.

In addition, weaknesses in the auditee's financial management need to be addressed. We found that (1) duplicate and ineligible housing assistance payments were made, (2) expenditures were inadequately supported, and (3) Housing Choice Voucher program funds were used for other programs.

What We Recommend

We recommend that the director of HUD's New York Office of Public Housing (1) recoup through offset against future payments the more than one million in overpaid housing assistance payments and administrative fees received due to incorrect billing and reporting to HUD, (2) instruct the auditee to implement controls and procedures to maintain its waiting list and apply housing quality standards in accordance with HUD procedures, and (3) ensure the auditee develops and implements financial controls to adequately support expenditures, use Housing Choice Voucher program funds only for that program, and allocate vouchers to project-based units in accordance with an approved allocation plan.

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

Auditee Response

We discussed the results of our review with the auditee during the course of the audit and we provided a draft report to them on January 23, 2006. We held an exit conference on February 3, 2006, at which the auditee provided oral comments and additional documentation, and we adjusted the report where necessary. While the auditee agreed to provide written comments by February 9, 2006, officials subsequently requested an additional 30 days, however, it was agreed that they would respond to the HUD field office.

¹ Portability units represent vouchers that the auditee administers for another public housing agency for tenants that have rented units within Mount Vernon but use the vouchers of the other agency. The other agency bills HUD for the vouchers, and Mount Vernon bills the other agency for housing assistance payments and a share of the administrative fee.

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BACKGROUND AND OBJECTIVES

The Mount Vernon Urban Renewal Agency (the auditee) was established to provide decent, safe, and sanitary housing for eligible low-and moderate-income residents of Mount Vernon, New York. The auditee administers various U.S. Department of Housing and Urban Development (HUD) programs, including the Community Development Block Grant, Section 8 Housing Choice Voucher, Home Investment Partnership, and Housing Opportunities for People with AIDS programs. Each of these programs are accounted for and reported separately in the financial statements of the auditee. In addition, the auditee serves as a HUD contract administrator for the Sunnybrook Senior Home.

The auditee's Section 8 program began in 1976, and its waiting list has been closed since 1997 when there were more than 1,000 people on the list. The annual contribution contract for the program authorizes 1,039 units; however, the auditee has used approximately 645 units, consisting of 437 tenant-based and 208 project-based units. Additionally, approximately 260 families have been assisted under portable vouchers administered by other housing authorities. The Auditee distributed more than \$6.9 million and \$6.7 million in housing assistance payments and earned \$772,916 and \$737,130 in Section 8 administrative fees in calendar years 2003 and 2004, respectively.

The independent public accountant rendered an unqualified opinion on the Section 8 financial statements for fiscal years 2002 through 2004. However, the auditee received a score of 54 in its Section 8 Management Assessment Program confirmatory review for the fiscal year ending December 31, 2002, and the score declined to 27 in the 2003 review. At that time, HUD classified the auditee as troubled.

In response to a June 2004 HUD rental integrity management review, which required submission of a corrective action plan, the auditee enlisted assistance from Westchester County in its administration of the Section 8 program. In November 2004, Westchester County assumed responsibility for administering the auditee's Section 8 program. Westchester County has been working with the auditee to improve its program administration, including performing timely tenant recertifications. In June 2005, the HUD field office requested that the auditee finalize a number of corrective actions, including reorganizing the Section 8 staff and obtaining the services of a forensic auditor to perform a complete financial audit of the Section 8 program from 1998 to the present.

The objectives of the audit were to determine whether the Auditee (1) correctly billed HUD for housing choice vouchers used; (2) complied with HUD program requirements for tenant admissions, rental subsidy calculations and housing quality standards, and (3) implemented financial management controls to ensure that Section 8 Housing Choice Voucher program funds were adequately safeguarded.

RESULTS OF AUDIT

Finding 1: Incorrect Billing by the Auditee Caused Overpayments

Contrary to HUD requirements, the auditee incorrectly requisitioned funds from HUD, which caused overpayments of Section 8 Housing Choice Voucher funds. The auditee incorrectly requisitioned payments based upon fully leasing its contracted units when it wasn't and erroneously included portable voucher units in its billing. These deficiencies occurred because the auditee did not have adequate controls over voucher billing and reporting. As a result, the auditee was paid \$1,165,138 in excess housing assistance payments and accumulated a large housing assistance payment reserve through calendar year 2004, and received \$615,781 in unearned administrative fees in calendar years 2004 and 2005.

Auditee Incorrectly Requisitioned Funds from HUD

During calendar year 2003 and 2004 payments to the auditee were based upon requisitions submitted to HUD. During this time, the auditee requisitioned funds based upon fully leasing the 1,039 units in its annual contributions contract with HUD. However, the auditee actually leased at a rate of 82 percent and 62 percent in calendar years 2003 and 2004, respectively. Consequently, the auditee received excess housing assistance and administrative fees of \$1,165,138.

HUD Housing Choice Voucher Program Guidebook 7420.10G, paragraph 20.11, provides that requisitions for payments during the year from HUD are based upon estimates of housing assistance payments and administrative fees needed. Federal regulations at 24 CFR [*Code of Federal Regulations*] 982.152, section C-3 (b), provide that administrative fees are requisitioned monthly based upon the number of units under housing assistance payment contract on the first day of each month and that the actual fees earned are determined at the end of the fiscal year as part of the year-end settlement process. Thus, amounts requisitioned would be reconciled with the actual amount earned during the year-end settlement process. Any requisitioned amounts in excess of amounts earned are considered reserves.

The auditee has not been able to fully lease up all its contracted vouchers. While the auditee was funded for 1,039 units according to its annual contribution contract, it used approximately 645 vouchers in calendar years 2003 and 2004. Therefore, in using 1,039 units as their basis, \$15,127,157 in funding was requisitioned in calendar years 2003 and

2004. However, the auditee actually earned \$13,962,019 for these years, resulting in \$1,165,138 in excess funding. HUD offset \$604,976; however, there is still a balance of \$560,162 that should be offset.

Year	Amount requisitioned	Amount earned	Amount overpaid	Amount offset	Excess not offset
2003	\$ 6,982,953	\$ 6,548,840	\$ 434,113	\$ 434,113	- 0 -
2004	\$ 8,144,204	\$ 7,413,179	\$ 731,025	\$ 170,863	\$ 560,162
Total	\$15,127,157	\$13,962,019	\$1,165,138	\$ 604,976	\$ 560,162

HUD procedures required that the auditee compare actual program needs to the funds advanced, and revise its monthly advances if the scheduled payments were in excess of actual needs at year-end by more than five percent. In addition PIH Notice 94-64 required that the auditee review amounts requisitioned by 90 days after the beginning of its fiscal year. If it were determined that the amount requisitioned would exceed actual needs by more than five percent, a revised requisition should have been submitted no later than 45 days before the beginning of its third quarter. The auditee did not submit revisions during fiscal year 2003 and 2004.

Over-Requisitions Generated a Large Reserve

The over-requisition of funds caused the accumulation of a large housing assistance payment reserve. As of July 30, 2005, the reserve was \$3,116,705. HUD Housing Choice Voucher Program Guidebook 7420.10G, section 20.4, provides that excess amounts accumulated above the approved reserve level are considered excess reserves and are subject to annual recapture. During the course of our audit, we discussed with HUD officials the accumulation of this reserve, and in response to our inquiries, HUD recaptured \$2,385,680 of this reserve. As of December 2005, HUD has decided to allow the auditee to retain a reserve of \$170,864, which is equal to approximately one week’s housing assistance payments.

Erroneous Portable Unit Reporting Caused Unearned Administrative Fees

During calendar years 2003 and 2004, the auditee incorrectly reported in HUD’s Voucher Management System the number of vouchers it administered. It erroneously included portable vouchers of other agencies, thus increasing the reported number of vouchers under lease. As a result, it incorrectly received an administrative fee from HUD for

the portable vouchers when it was already receiving these fees from the agencies responsible for the vouchers.

HUD procedures provide that when vouchers from another agency are accepted, that agency must be billed for housing assistance payments and a prorated administrative fee. By including portable vouchers from other agencies in its voucher count to HUD, the auditee received unearned administrative fees. As a result, it incorrectly received \$401,166 in administrative fees during the period January 1, 2003, through October 2004 that should be returned to HUD.

For fiscal year 2005, the Consolidated Appropriations Act of 2005 (the Act) changed the method of funding vouchers. In 2005, the funding methodology was changed from providing funding based on the units under contract to funding based on what the agency received in 2004. Funding for fiscal year 2005 housing assistance payments was based upon the monthly average housing assistance payments paid during May, June, and July 2004, and the administrative fee was based upon the units reported during this same period. While the auditee correctly reported housing assistance payments made during this three-month period, the number of reported units erroneously included the portable units of other agencies. Accordingly, the administrative fee received in 2005 continues to be overstated due to the erroneous reporting of portable units. While the Act provides that adjustments to actual units leased will be made in March 2006, the auditee was overpaid \$214,615 for the period January through December 2005 and will be overpaid an additional \$53,654 through March 31, 2006. However, if the basis for the erroneous housing assistance payment is corrected now, HUD will have less funds to recoup at year-end, and the effect upon the auditee to repay would be reduced.

Recommendations

We recommend that the director of HUD's New York Office of Public Housing

- 1A. Recoup through offset the \$560,162 in overpaid Section 8 funds in calendar years 2003 and 2004.
- 1B. Determine the number of vouchers the auditee can realistically administer and amend the auditee's annual contribution contract accordingly. Final action has been taken to reallocate \$2,385,680 of reserves, thus releasing these funds to be put to better use.

- 1C. Require the auditee to reimburse HUD the unearned administrative fees of \$401,166 and \$214,615, resulting from the inclusion of portable vouchers in its voucher count to HUD in calendar years 2004 and 2005, respectively.
- 1D. Adjust the basis for the fiscal year 2006 funding to prevent additional overpayment of \$53,654 in administrative fees through March 2006 so that these funds can be put to better use.

Finding 2: Administrative Weaknesses Exist in the Auditee's Section 8 Housing Choice Voucher Program

Weaknesses in the auditee's administration of its Section 8 Housing Choice Voucher program need to be corrected. We found that the auditee (1) did not properly use or maintain its Section 8 waiting list, (2) improperly calculated tenant subsidy amounts, (3) did not perform tenant recertifications in a timely manner, and (4) incorrectly applied and/or failed to document that all units met housing quality standards. These deficiencies resulted from the auditee's failure to follow HUD regulations related to use of the Section 8 waiting list, selection and certification of tenants, calculation of subsidy amounts, and inspection of apartment units. As a result, the overall effectiveness of the auditee's Section 8 Housing Choice Voucher program has been diminished.

Waiting List Was Not Properly Used or Maintained

The auditee did not use or maintain the Section 8 waiting list in accordance with HUD requirements. We found that (a) tenants who were not on the Section 8 waiting list were selected for the program, (b) the Section 8 waiting list had not been routinely purged as required, and (c) the dates that tenants were placed on the waiting list were not accurate.

HUD Housing Choice Voucher Program Guidebook 7420.10g, chapter 4.11, provides that as vouchers become available, eligible applicants should be selected from the waiting list. We found that eligible tenants were not selected for the Section 8 program from the waiting list. In the year 2001, a previously state-operated housing development in Mount Vernon became privatized, and the auditee converted 208 of its 1,039 contracted units to project-based vouchers for use at this development. In accordance with HUD regulations, 171 tenants, who had previously occupied apartments at the development, were given vouchers. However, contrary to HUD regulations, an additional 32 tenants, who had not previously resided at the development, were given vouchers. These tenants were not on the auditee's Section 8 waiting list but were selected by the development from its own waiting list.

We also found in our review of 30 tenant-based voucher files that 20 of the 30 tenants sampled were not listed on the auditee's waiting list before selection and certification into the voucher program. Therefore, these tenants were not selected based upon Section 8 waiting list priority. Consequently, the auditee is not properly using its waiting list and cannot provide documentation that these tenants were properly selected.

In addition, the Auditee is not properly maintaining its Section 8 voucher waiting list. It has not purged its waiting list or updated its active tenant list in a timely manner in accordance with both HUD regulations and its own administrative plan. HUD Housing Choice Voucher Program Guidebook 7420.10g, chapter 4.5, provides that the waiting list should be kept as up-to-date as possible to minimize the number of “no-shows” and ineligible applicants. The auditee’s administrative plan provides for annual purging of the waiting list. Untimely purging of the waiting list can cause a delay in leasing activities because it can be difficult, if not impossible, to reach applicants selected, and an applicant’s status may have changed so that the applicant would no longer be eligible.

The auditee closed its waiting list in 1997, and did not conduct a purge until March 2002. After assuming administration of the auditee’s program, Westchester County sent letters to more than 1,500 applicants in December 2004 and January 2005 to determine the applicants’ interest in the voucher program. More than 300 names were removed from the waiting list after their letters were returned undeliverable. Further, in April 2005, Westchester County reviewed the applicants who were purged and was not satisfied with the documentation in the file to support removing the applicants from the waiting list. A review of the files disclosed that 108 applicants had been erroneously purged because they identified themselves as being single; accordingly, these applicants had to be reinstated.

The auditee was not accurately recording the date that applicants were placed on the waiting list. Many tenants were listed as having been placed on the waiting list on November 19, 2001, after the waiting list was closed. Auditee officials were unable to explain how these dates were determined. Without the accurate date the applicant was placed on the waiting list, the auditee cannot be assured that it is distributing vouchers in accordance with established waiting list priority. Auditee officials advised us that they expect to correct and finalize the update of the waiting list in early 2006.

Tenant Subsidy Amounts Were Inaccurately Computed

We learned that tenant subsidy amounts were not always calculated properly. We found that the housing assistance payments in 6 of 30 cases we sampled were not calculated in accordance with HUD Housing Choice Voucher Program Guidebook 7420.10g, chapter 5, section 5.5. The errors were caused by an inaccurate calculation of income resulting from (1) failure to deduct medical expenses from the tenant’s Social Security income, (2) use of an incorrect/incomplete pay stub to determine the tenant’s income, and (3) using 2003 income instead of 2004 income to

process the tenant's 2004 recertification. Thus, the annual impact on housing assistance payments for these six cases was an excess subsidy amounting to \$1,188.

Tenant Recertifications Were Not Always Performed in a Timely Manner

Tenant recertifications were not always performed in a timely manner. HUD Housing Choice Voucher Guidebook 7420.10G, chapter 12, section 12.2, provides that annual examination for recertification must occur for every family within a 12-month period. We found that 4 out of the 30 cases we sampled were not certified in a timely manner. In each of the cases, although the tenant had submitted the proper recertification documents in a timely manner and the unit had passed the housing quality standard inspection, the recertification was not completed. As a result, we attribute this error to the auditee's administrative oversight. Nevertheless, since we determined that the tenants were eligible and properly recertified during the next recertification period, we are not taking a monetary exception.

Inspections Not Performed in Accordance with Housing Quality Standards

During on-site inspections of eight units with auditee inspectors, we found that the inspectors did not properly apply HUD's housing quality standards. For instance, five of seven units failed by the inspectors failed primarily because there was no smoke detector outside of each bedroom. HUD Housing Choice Voucher Program Guidebook 7420.10(G), chapter 10, section 3, provides that there must be at least one battery-operated or hard-wired smoke detector in proper operating condition on each level of the unit including basements, but excluding spaces and unfinished attics. Since there was a working smoke detector near the three bedrooms, although not in front of each room, these five units should have passed inspection. Two of the units also failed because of ceiling and wall cracks and peeling paint; however, these conditions did not meet the threshold for failure according to HUD Housing Choice Voucher Program Guidebook 7420.10(G). We discussed the results of these inspections with HUD officials, who concurred that the housing quality standards were incorrectly applied in these five cases.

Our review of 30 tenant files disclosed two cases with insufficient documentation that prior conditions that caused the units to fail had been rectified. The units failed inspection during tenant certification in 2004,

and while there was no evidence that the conditions causing the failure had been rectified, we noted that the units passed inspection before the tenant certifications in 2005. However, during our on-site inspection of these units in October 2005, one of these units failed the inspection for the same conditions (defective kitchen outlets and a defective bathroom flush) for which the unit had previously failed. Accordingly, we question whether the unit was properly inspected in 2004 and 2005. Therefore, the \$13,779 in housing assistance payments made for this unit during the period August 2004 through October 2005 is considered improperly paid. Consequently, the auditee should abate the housing assistance payments for this unit until there is a certification that the deficiency is properly corrected. Thus, the \$5,512 in housing assistance payments that are scheduled to be paid before the next tenant certification and unit inspection should be considered funds to be put to better use.

Recommendations

We recommend that the director of HUD's New York Office of Public Housing require the auditee to

- 2A. Establish controls and procedures to ensure that tenants are properly selected from the waiting list.
- 2B. Implement procedures to ensure that the waiting list is properly maintained and purged in accordance with HUD regulations and the auditee's administrative plan.
- 2C. Reimburse HUD for the improper \$1,188 in housing assistance payments that resulted from incorrect subsidy calculations.
- 2D. Implement procedures to ensure the proper use of tenant income in calculating subsidy payments.
- 2E. Implement controls and procedures to ensure that tenant recertifications are conducted in a timely manner.
- 2F. Implement a training program for its inspectors to ensure that units are properly inspected for compliance with housing quality standards and that controls are implemented to document that annual and follow-up inspections are conducted.

- 2G. Reimburse the \$13,779 in housing assistance payments that were improperly paid in 2004 and 2005 for the unit lacking documentation that the housing quality standard violations were corrected, and ensure that the unit complies with housing quality standards, thus resulting in \$5,512 in funds to be put to better use for the remainder of the contract period.

Finding 3: Weaknesses Exist in the Auditee's Financial Management Controls

Weaknesses in the auditee's financial management controls need to be addressed. We found that (1) duplicate and ineligible housing assistance payments were made, (2) expenditures were inadequately supported, (3) Housing Choice Voucher program funds were used for other programs, and (4) documentation was lacking for the allocation of vouchers to project-based units. These deficiencies resulted from the auditee's failure to comply with HUD regulations, errors, and its lack of controls over financial transactions. Consequently, the auditee made \$2,290 in duplicate payments, inadequately supported expenditures of \$699,934 and did not maintain complete and accurate records.

Duplicate and Ineligible Housing Assistance Payments Were Made

The Auditee made erroneous and duplicate housing assistance payments to one landlord amounting to \$2,290. In a January 2004 payment request, which was submitted to recover back payments related to 74 tenants in a project based development, payments totaling \$1,084 (\$542 and \$542) were made on behalf of a tenant representing rental subsidy for May and June 2003; however, the tenant in question did not move into the apartment unit July 2003. Therefore, this payment is considered ineligible. In addition, on the same request the auditee erroneously made duplicate payments for two additional tenants for the month of August 2003 totaling \$1,206 (\$463 and \$743). Since payments for these tenants were already made in the initial voucher request, these amounts are also considered ineligible. Consequently, \$2,290 represents erroneous payments that should be repaid to the Section 8 Housing Choice Voucher program.

Expenditures Were Inadequately Supported

Our review also revealed that expenditures charged to the Section 8 Housing Choice Voucher program were not adequately supported. For calendar year 2004, we examined the supporting documentation for 87 transactions that were in excess of \$5,000. Supporting documentation for 11 transactions amounting to \$479,138 was not available, and the auditee was unable to provide evidence to support the nature of these expenses or whether the payment of these expenses were necessary and reasonable. Therefore, these payments are considered unsupported.

We also found that there was inadequate documentation to properly allocate costs to the Section 8 Housing Choice Voucher program. The

auditee lacked an allocation plan or written procedures to support the basis for \$185,796, which represented the allocation of 12 employees' salaries to the Section 8 Voucher program. In addition, \$35,000 allocated to the Section 8 Voucher program for technical and legal services lacked documentation for the basis of the allocation. HUD Housing Choice Voucher Program Guidebook 7420.10(G) section 20.2 provides that Section 8 funds should be expended only for allowable program costs. Without a proper basis for the allocation of costs, we consider these expenses unsupported.

Furthermore, we found five housing assistance payments that lacked a voucher and/or backup from the landlord. However, since these payments are recurring, we are not taking an exception to them. Nevertheless, the auditee should maintain proper documentation to support these disbursements. We attribute these weaknesses to inadequate management controls in the safeguarding of the auditee's assets.

Section 8 Funds Used to Fund Other Programs

The auditee deposited Housing Choice Voucher program funds into a general revolving account. However, as discussed in finding 1, because the auditee received excess funds due to over-requisitioning and incorrect billings for portable vouchers, the auditee was able to use these excess funds to pay expenses of other programs contrary to program regulations. The Housing Choice Voucher Program Guidebook 7420.10(G) section 20.2 provides that Section 8 funds should be expended only for allowable program costs. During the review we were unable to specifically determine from the auditee's records the programs for which these funds were used; however, auditee officials advised that the funds were used primarily for payroll-related expenses of other programs. As such, the auditee needs to cease this practice of using Section 8 funds for other programs, and as discussed in finding 1, we are requesting that the auditee repay the excess Section 8 program funds that have not yet been recouped.

HUD Approval for Project-Based Units Is Lacking

The fiscal year 2001 Department of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act (Pub. Law 106-377, 114 Stat. 1441), section 232, limited an agency's project-based vouchers to 20 percent of the agency's baseline vouchers. As noted in finding 2, when a local state-operated development became privatized, the auditee converted 208 of its contracted Section 8 vouchers to project-

based, which represented 20 percent of the auditee's 1,039 contracted vouchers.

However, the auditee lacked documentation for the proper execution and HUD approval for its use of 208 vouchers as project-based. In a November 4, 2003 memorandum, officials of HUD's Office of Public Housing notified the auditee that there was no record of HUD approval for the award of project-based units at the development. During our audit, neither the auditee nor the owners of the development could document a HUD-approval letter or a housing assistance payment contract between the auditee and the development for the establishment and operation of the project-based vouchers/units. The auditee did provide a contract at the exit conference, however, there is no evidence that the contract was issued competitively and with HUD approval in accordance with 24CFR (*Code of Federal regulations*) Chapter IX, Subpart B, Section 983.51. As such, the auditee is inappropriately providing Section 8 assistance to 208 project based tenants without an allocation plan that complies with the above criteria to support the number of units assigned and HUD's approval of the plan to competitively select units. The annual housing assistance subsidy for these 208 units amounts to \$2,423,869. Accordingly, not until the auditee develops an allocation plan for project based vouchers and obtains HUD approval to use these vouchers as project based will these funds be appropriately used.

In addition, although the above appropriations act allows for 20 percent of an entity's vouchers to be used as project based, HUD needs to consider that as previously noted in finding 1, the auditee has only used an average of 645 of its allocated 1,039 vouchers per month, therefore, officials have advised that the allocated 1,039 vouchers is not a realistic number. As such, if HUD reduces the baseline number of vouchers in the annual contributions contract, the number of vouchers that can be designated as project-based must also be reduced, which would impact the auditee's ability to continue to allocate 208 of its vouchers as project-based.

Recommendations

We recommend that the director of HUD's New York Office Public Housing require the auditee to

- 3A. Reimburse HUD from nonfederal funds for the \$2,290 in erroneous and duplicate housing assistance payments.
- 3B. Provide proper support for the \$479,138 in unsupported costs and direct that if these costs cannot be supported, the auditee should reimburse the unsupported amount to HUD from nonfederal funds.

- 3C. Develop and implement procedures that will ensure that all costs allocated to the Housing Choice Voucher Program is properly supported.
- 3D. Provide HUD with documentation for the unsupported \$185,796 in salary costs and \$35,000 in technical and legal service costs that was allocated to the Housing Choice Voucher program, so that HUD can determine the eligibility of this cost. If any of these costs are determined to be ineligible, the auditee should be required to reimburse HUD the ineligible amounts from nonfederal funds.
- 3E. Develop and implement controls and procedures that will ensure that Housing Choice Voucher program funds are not used for other programs.
- 3F. Obtain HUD approval and develop an allocation plan to designate and distribute the 208 vouchers as project-based, thereby putting the annual subsidy payments amounting to \$2,423,869 to better use.

SCOPE AND METHODOLOGY

Our review focused on the auditee's Section 8 Housing Choice Voucher program. To accomplish our objectives, we

- Reviewed applicable HUD requirements and regulations.
- Obtained an understanding of the auditee's management controls as they related to our objectives.
- Reviewed financial statements, general ledgers, and year-end settlement statements for calendar years 2003 through 2005 as applicable.
- Reviewed calendar year 2004 expenses for all expenditures in excess of \$5,000 for appropriateness and adequate support.
- Reviewed administrative controls for the selection, certification, and recertification of tenants.
- Reviewed the controls over the maintenance and use of the waiting list.
- Sampled 30 tenant files to verify the accuracy and completeness of the auditee's use of its waiting list, certification procedures, and rental assistance calculations.
- Reviewed the certification for the 32 project-based tenants not selected from the waiting list.
- Reviewed the controls over unit inspections, examined inspection records and tenant complaints for 30 tenants, and inspected eight units for compliance with housing quality standards and resolution of prior deficiencies.
- Interviewed HUD field office staff as well as employees of the auditee.

The review covered the period between January 1, 2004, and February 28, 2005; however, it was extended as necessary. We performed our audit work from March through October 2005. The review was conducted in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The auditee did not have adequate controls over the validity and reliability of data in its procedures to bill and report voucher use to HUD (see finding 1).
- The auditee did not have adequate controls to ensure that maintenance of the waiting list, calculation of rental subsidy, tenant certifications, housing quality standards inspections and allocation of vouchers to project-based units were performed in compliance with applicable laws and regulations (see finding 2 and 3).
- The auditee did not have a system to safeguard resources when it did not ensure that costs were properly allocated and Section 8 funds were appropriately spent for allowable purposes. (see finding 3).

APPENDIXES

Appendix A

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

Recommendation number	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Funds to be put to better use 3/</u>
1A	\$ 560,162		
1B			\$ 2,385,680
1C	\$ 615,781		
1D			\$ 53,654
2C	\$ 1,188		
2G	\$ 13,779		\$ 5,512
3A	\$ 2,290		
3B		\$479,138	
3D		\$220,796	
3F			\$ 2,423,869
Total	\$1,193,200	\$699,934	\$ 4,868,715

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. The decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if the Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.