Issue Date September 4, 2008
Audit Report Number 2008-BO-1008

TO:

Robert P. Cwieka, Acting Director, Office of Public Housing, Boston Hub, 1APH

FROM: John Dvorak, Regional Inspector General for Audit, Region 1, 1AGA

SUBJECT: The State of Connecticut Department of Social Services Significantly Underleased Its Housing Choice Voucher Program and Did Not Always Comply with Its Annual Contributions Contracts and HUD Regulations

HIGHLIGHTS

What We Audited and Why

We initiated this audit as part of the audit plan to determine whether the State of Connecticut Department of Social Services (agency) properly administered its Housing Choice Voucher program (Voucher program) in compliance with its annual contributions contracts and U.S. Department of Housing and Urban Development (HUD) regulations. Our objectives were to determine whether the agency (1) adequately (95 percent or more) leased up its Voucher program, (2) properly accounted for and reported program fraud repayments and related program income, and (3) could adequately support administrative costs charged to the Voucher program.

What We Found

The agency did not adequately utilize its Section 8 vouchers. As a result, approximately 770 households in calendar year 2007 were not served. In addition, the agency did not ensure that its contractor had adequate controls over fraud recoveries and related interest income. Specifically, the agency did not ensure that the contractor properly accounted for, reported, and returned fraud recoveries and related interest income in accordance with HUD's requirements. As a result, more than $1 million needs to be returned to the agency to be used for program purposes. Lastly, the agency could not support the allocation of more than $1.6 million in salary and benefits to the Voucher program and charged $14,440 to the Voucher program for costs related to the state-funded housing program.

What We Recommend

We recommend that the Public Housing Program Center Coordinator require the agency to implement adequate procedures and controls to ensure that it is adequately leased up to at least the 95 percent threshold required by HUD and provide additional housing assistance to eligible households; recover more than $1 million from the contractor and account for, report, and use the funds in accordance with HUD requirements; provide support to show that more than $1.6 million in direct and indirect salaries was properly chargeable to the Voucher program or repay any ineligible costs.

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

Auditee's Response

We provided the agency the draft report on July 28, 2008, and held an exit conference on August 12, 2008. The agency agreed with our findings and recommendations.

We received the agency's response on August 22, 2008. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The State of Connecticut Department of Social Services (agency) provides a broad range of services to the elderly; persons with disabilities; families; and individuals who need assistance in maintaining or achieving their full potential for self-direction, self-reliance, and independent living. The agency is designated as a public housing agency for the purpose of administering the Section 8 program under the Federal Housing Act. It is headed by the commissioner of social services, and there are deputy commissioners for administration and programs. There is a regional administrator responsible for each of the three service regions. By statute, there is a statewide advisory council to the commissioner, and each region must have a regional advisory council. The agency administers most of its programs through offices located throughout the state.

The agency's Housing Services Unit oversees the Section 8 Housing Choice Voucher program (Voucher program), as well as its Rental Assistance Program, Transitionary Rental Assistance Program, and Security Deposit Guarantee Program. The agency receives Voucher program funding from the U.S. Department of Housing and Urban Development (HUD). It received more than $126 million in Voucher program funding from July 1, 2005, through February, 2008. It also earned more than $10.9 million in administrative fees for the same period.

The agency's Voucher program is a statewide program. The agency contracts the administration of its Voucher program to J. D'Amelia & Associates LLC. J. D'Amelia & Associates LLC subcontracts operation of the Voucher program throughout Connecticut to seven local public housing authorities and one community action agency.

The agency must operate its Voucher program according to rules and regulations prescribed by HUD in accordance with the United States Housing Act of 1937, as amended, and its annual contributions contract.

Our overall objective was to determine whether the agency properly administered its Voucher program in compliance with its annual contributions contract and HUD regulations. Specific objectives were to determine whether the agency

- Adequately (95 percent or more) leased up its Voucher program

- Properly accounted for and reported tenant fraud repayments and related interest income, and

- Could adequately support administrative costs charged to the Voucher program.

RESULTS OF AUDIT

Finding 1: The Agency Significantly Underleased Its Voucher Program

The agency significantly underleased its Voucher program despite having sufficient funds available to house eligible households. This condition occurred because the agency did not have adequate procedures and controls to track utilization and meet HUD's 95 percent lease up requirements. As a result, approximately 770 families went unhoused in 2007. Further, as of December 2007, the agency had nearly $15 million in excess program funds that could have been used to provided assistance to low- and moderate-income households seeking decent, safe, and sanitary housing.

Housing Choice Voucher Leasing Threshold Not Met

Regulations at 24 CFR [*Code of Federal Regulations*] 985.3(n)(3)(ii) require that public housing agencies lease at least 95 percent of their allocated yearly vouchers and/or funding to eligible participants in order to receive an acceptable program performance rating as a "standard" performer. HUD uses this requirement as part of its review and scoring of the Voucher program. The agency's failure to meet HUD's lease-up thresholds resulted in approximately 770 families not being housed in calendar year 2007.

In calendar year 2007, the agency only utilized 5,133 (82 percent) of the 6,214 housing choice vouchers authorized by HUD. In addition, from January 1, 2006, through December 31, 2007, HUD provided more than $99.3 million in program funding to the agency to provide housing assistance for eligible households. The agency spent only about $84.3 million (85 percent) of its funding for housing assistance payments as reported in HUD's Voucher Management System. As a result, it had more than $4.5 million in excess program funds from its calendar year 2006 program, and program surpluses grew to nearly $15 million by the end of calendar year 2007.

Utilization Not Adequately Tracked

The agency failed to adequately track voucher utilization; therefore, it was not aware that it needed to significantly increase the lease-up rate. According to discussions with the agency and its contractor, the agency was initially responsible for tracking the utilization rate. However, when the agency accountant left to take another position, utilization was not adequately tracked. Further, the agency failed to communicate to the contractor that there was adequate funding to increase the lease-up rate to the 95% level. Currently, the agency is providing all of the funding information to the contractor, and the contractor is responsible for tracking utilization and reporting to the agency on its progress.

Agency Taking Action to Increase Utilization

Agency management acknowledged that low voucher utilization was a problem that needed to be addressed. Since utilization rates are a Section Eight Management Assessment Program indicator that the agency reports to HUD annually, HUD became aware of the agency's low lease-up rate. In response to HUD, the agency began taking actions to more adequately utilize its Voucher program. In the summer of 2007, it opened the waiting list in an effort to increase utilization. As of April 2008, it had approximately 1,600 applicants looking for units to lease.

Conclusion

The agency significantly underleased its Voucher program despite having sufficient vouchers and funds available to house eligible households. This condition occurred because the agency did not adequately track utilization and meet HUD's 95 percent lease-up requirements. As a result, approximately 770 families went unhoused. Further, as of December 2007, the agency had nearly $15 million in excess program funds that could have been used to provided assistance to low- and moderate-income households seeking decent, safe, and sanitary housing.

Recommendations

We recommend that the Public Housing Program Center Coordinator require the agency to

1A. Implement adequate procedures and controls to ensure that its authorized vouchers and program funds are utilized to at least the 95 percent threshold required by HUD and provide housing assistance to eligible households.

RESULTS OF AUDIT

Finding 2: More Than $1 Million in Program Income and Interest Earned Was Not Properly Accounted for, Reported, and Returned in Accordance with HUD's Requirements

The agency did not ensure that its contractor had adequate controls over program income. Specifically, the agency did not ensure that the contractor properly accounted for, reported, and returned program fraud recoveries and interest earned in accordance with HUD requirements and its contract. It did not ensure that the contractor had adequate policies and procedures in place over program income. In addition, the agency did not ensure that its contractor monitored its subcontractors and satellite office. This condition occurred because the agency did not effectively monitor its contractor to ensure that it followed all of HUD's requirements. As a result, more than $1 million in a contractor bank account could not be supported by reliable books and records and was not available for intended program purposes.

Program Income Not Properly Accounted for, Reported, and Returned

HUD's Housing Choice Voucher Program Guidebook 7420.10G, chapter 20.9, states that tenant and owner (landlord) fraud recoveries can include a number of situations, with perhaps the most common being the underreporting of tenant income, which results in an overpayment of housing assistance to owners. When this fraud is discovered, the public housing agency may pursue the tenant for repayment of the funds. These repayments are referred to as fraud recoveries.

Although the agency was aware that the contractor collected fraud recoveries from tenants and landlords, it did not ensure that the contractor properly accounted for, reported, and returned fraud recoveries and related interest earned to it in accordance with HUD requirements or its contract. HUD required that the agency's portion of the fraud recovery (i.e., the higher of 50 percent of the amount collected or the reasonable and necessary costs the public housing agency incurred related to the collection) from the Voucher program continue to be used for activities related to the Voucher program and any remaining amount would be considered as excess admin fees of the agency. The balance of the recovery amount (the remaining 50 percent recovered) must be maintained in the agency's account as excess housing assistance payments.

The contractor maintained a bank account that commingled program income from its Voucher program, State of Connecticut Rental Assistance Program (State program), and interest earned for both programs. Although the agency's contractor had administered the Voucher program since 2000, the contractor had not reconciled the program income collected under the previous contractor and program income collected after taking over the administration of the program. As of April 30, 2008, there was more than $1 million in this bank account. These funds included fraud recoveries and landlord HAP reimbursements for both its State program and Voucher program and related interest earned.

Lack of Policies and Procedures Over Program Income

The agency did not ensure that the contractor had policies and procedures in place for Voucher program fraud recoveries. As a result, there were inconsistencies in how each subcontractor office handled fraud recoveries. For example, there were differences with

- The format and content of repayment agreement forms,
- Accepted forms of payment (cash, money orders, personal checks),
- Who the payee was on the payment (subcontractor or contractor),
- How the tenant accounts were maintained by each office (green accounting paper, Microsoft Word document, Microsoft Excel spreadsheet, Quick Books),
- How often fraud recovery collections were remitted to the contractor and what information was included,
- How the payment was documented (copies of each money order or personal check or recording the amount and tenant in the cash receipts journal or deposit ticket), and
- How the repayments were submitted to the contractor from the subcontractors (submitting the actual money orders and personal checks to the contractor or submitting a check from the subcontractor's account to the contractor for the fraud recoveries).

Lack of Monitoring for Tenant Fraud Recoveries

The agency did not ensure that its contractor adequately monitored fraud recoveries for its subcontractors and satellite office. Specifically, the contractor did not:

- Receive copies of tenant repayment agreements and, therefore, did not know how much each tenant owed, the nature of the repayment, or the terms of the agreements.

- Know how fraud recoveries were paid, tracked, and reconciled in each office.
- Ensure there were adequate segregation of duties for fraud recoveries at its satellite office and subcontractor offices.[1]
- Perform monitoring reviews of its subcontractors to ensure that tenant accounts were accurate,
- Require its satellite office and subcontractors to provide the repayment agreements to it in order to reconcile and monitor payments received from its subcontractors.[2]
- Ensure that actual expenses to collect fraud recoveries incurred by the subcontractors and satellite office were documented for each repayment agreement.

The contractor did not maintain a tenant accounts receivable ledger on its books but instead relied on its eight subcontractors to track tenant accounts for their office. The contractor received payments submitted by subcontractors from the tenant or landlords and deposited the funds into the bank account. The contractor recorded the program income as a debit to cash and recorded the corresponding entry as a credit to accounts payable. The fee accountant advised that it was done this way because they are not sure how much of these funds it must return to the agency or HUD.

The contractor forwarded program income collected to one of its subcontractors.[3] However, the contractor did not receive copies of the bank statements or returned items from this subcontractor until we began our audit (within the last few months). As a result, the contractor was not aware of items returned by the bank. For example, there was a returned item for more than $10,000 from 2006 for a housing assistance payment reimbursement from another public housing agency). This public housing agency had stopped payment on the check, which the contractor recently noticed when it started getting the bank statements for the tenant repayment bank account.

[1] The subcontractor employee responsible for fraud recoveries in each office (1) received the repayments (in the form of money orders, personal checks, and sometimes cash), (2) was responsible for recording the tenant repayments in the tenant ledger, (3) tracked the tenant repayment accounts to ensure that tenants made their monthly payments, and (4) forwarded payments to the contractor.

[2] One subcontractor office could not provide adequate support to show that tenant fraud recoveries were properly accounted for and reported. In addition, an employee from that office had to make adjustments to some tenant accounts based on documentation provided by the tenants for unrecorded payments to their accounts.

[3] This subcontractor maintained and reconciled the bank account for the contractor.

Conclusion

The agency did not ensure that its contractor had adequate controls over program income. It did not ensure the contractor had policies and procedures in place for program income. In addition, the agency did not ensure that its contractor monitored its subcontractors and satellite office. This condition occurred because the agency did not effectively monitor its contractor to ensure that it followed all requirements. As a result, more than $1 million of program income in a contractor bank account could not be supported by reliable books and records and was not available for intended program purposes.

Recommendations

We recommend that the Public Housing Program Center Coordinator require the agency to

2A. Recover the $1,033,400 from the contractor, determine the amount that is HUD funds and related interest earned and use them for their intended purpose.

2B. Implement policies and procedure over program income in accordance with HUD's requirements, including ensuring that the contractor (1) properly accounts for, reports, and returns fraud recoveries to the agency, (2) develops policies and procedures for its subcontractors and satellite office to follow to ensure consistency between each office, and (3) monitors fraud recoveries of its subcontractors and satellite office.

RESULTS OF AUDIT

Finding 3: The Agency Could Not Support More Than $1.6 Million in Expenses and Charged $14,000 in Ineligible Costs to the Voucher Program

The agency could not support the allocation of more than $1.6 million in salary and benefits to the Voucher program and charged $14,440 to the Voucher program for costs related to the state-funded housing programs. This condition occurred because the agency did not comply with HUD's requirements. As a result, these funds were not available to the Voucher program to use for eligible expenses.

Salaries and Benefits Not Supported

The agency could not support its method for allocating direct and indirect salaries to the Voucher program. It allocated more than $1.6 million in direct (nearly $1.3) and indirect ($336,304) salaries and benefits to the Voucher program for the period July 1, 2005, to March 2008. The agency's Housing Services Department had seven employees that worked on the Voucher program, state Rental Assistance Program, and Transitionary Rental Assistance Program, and two of these seven employees also worked on the state Security Deposit Guarantee Program. As of March 14, 2008, four of the seven employees' salaries and benefits were charged 100 percent to the Voucher program, including the housing services manager, who oversees the Voucher program, the two state-funded housing programs, and the Security Deposit Guarantee Program. The housing services manager revised this allocation on March 27, 2008, to 50 percent for all seven employees. She provided no support for the new allocation.

The housing services manager stated that she used the administrative fee funds that were available from the Voucher program to pay salaries and benefits. However, the agency did not provide adequate support to show that the salaries and benefits charged to the Voucher program were appropriate.

Ineligible Costs Charged to the Voucher Program

The agency did not properly allocate approximately $14,440 in expenses related to the waiting list, rent reasonableness study, and advertising for a contract administrator. It contracted out the administration of the Voucher program and two state housing programs, the Rental Assistance Program and the Transitionary Rental Assistance Program, to J. D'Amelia & Associates LLC. When the agency advertised for a contract administrator for these programs, it charged all of the advertising expense to the Voucher program. In addition, when it opened its waiting list for these programs, the majority of the costs were charged to the Voucher program. Further, the total cost of the rent reasonableness study was charged to the Voucher program. However, the manager of housing services stated that the agency used the rent reasonableness study to determine rents for both the Voucher program and the state housing programs. Since the state housing programs also benefited from all of these services, it should have paid its share of the expenses. The manager of housing services did not provide adequate justification to explain why the Voucher program funded the majority of the expenses.

The total costs incurred for the waiting list, rent reasonableness study, and advertising cost for a contract administrator for the State Rental Assistance Program and Voucher program were $352,494. The agency allocated $75,087 to the state housing program and the remaining $277,407 to the Voucher program. Using program size as a method for allocating costs (6,462 authorized vouchers versus 2,200 tenant-based Rental Assistance Program certificates), we calculated ineligible costs for the waiting list, rent reasonableness study, and advertising costs for contract administration of its rental programs to be approximately $14,440.[4] Based on the size of the programs, the state-funded housing program should have paid at least 25 percent of the costs.

Conclusion

The agency could not support the allocation of more than $1.6 million in salary and benefits to the Voucher program and charged $14,440 to the Voucher program for costs related to the state-funded housing programs. This condition occurred because the agency did not comply with HUD’s requirements. As a result, it may have used Voucher program funds for other than intended purposes, violating Federal Appropriations Acts.

[4] This calculation is based on the current number of authorized vouchers and Rental Assistance Program certificates.

Recommendations

We recommend that the Public Housing Program Center Coordinator require the agency to

3A. Provide support to show that $1,629,369 in direct and indirect salaries was properly chargeable to the Voucher program and repay any ineligible costs.

3B. Reimburse the Voucher program $14,440 for ineligible costs charged to the program for the waiting list, rent reasonableness study, and advertising costs for a contract administrator.

3C. Develop and document a reasonable method of allocating salaries and benefits and other costs to the Voucher program.

SCOPE AND METHODOLOGY

We conducted our audit between February and June 2008. We completed our fieldwork at the agency located at 25 Sigourney Street, Hartford, Connecticut, and its contractor, J. D'Amelia & Associates LLC's main office located in Waterbury, Connecticut. Our audit covered the period July 1, 2005, through June 30, 2007, and was extended when necessary to meet our audit objective.

To accomplish our audit objective, we

- Reviewed applicable Voucher program laws, regulations, guidance, and forms.
- Interviewed pertinent HUD staff to obtain information related to the agency's Voucher program.
- Interviewed pertinent agency staff and its contractor's staff to determine policies and procedures followed for the Voucher program.
- Determined the impact of the agency not adequately (95% or more) utilizing its Voucher program.
- Reviewed the tenant repayment account and repayment agreements to determine whether the agency and its contractor properly accounted for tenant repayments.
- Reviewed expenses charged to the Section 8 program to determine whether they were necessary and reasonable costs of the Section 8 program.

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

INTERNAL CONTROLS

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

- Compliance with laws and regulations,
- Controls over voucher utilization,
- Controls over Voucher program accounting and reporting, and
- Controls over Voucher program expenditures.

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 agency did not have adequate procedures and controls to track utilization and meet HUD's 95 percent lease up requirements. (finding 1).
- The agency did not ensure that the contractor had adequate policies and procedures in place over program income. (finding 2).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
2A			$1,033,400
3A		$1,629,369	
3B	$14,440		

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 polices or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, the $1,033,400 represents program income in a contractor bank account could not be supported by reliable books and records. The agency needs to recover these funds, determine the amount of HUD funds and related interest earned, and then use the funds for their intended purpose.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

STATE OF CONNECTICUT

DEPARTMENT OF SOCIAL SERVICES

25 SIGOURNEY STREET • HARTFORD, CONNECTICUT 06106-5033

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August 18, 2008

Mr. John Dvorak
Regional Inspector General for Audit
U.S. Department of HUD-Office of
Inspector General for Audit
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Dvorak:

I am writing to provide you with our formal response to the draft audit report issued by your office on July 28, 2008. The department has already taken measures to address all three findings and will work with the local HUD office on the corrective action plan to close-out findings 2 and 3.

Comment 1

Finding 1: The Agency Significantly Under-leased its Voucher Program.

During the audit period of the Office of Inspector General the Section 8 Voucher Program was under leased due to uncertainty caused by changes to HUD's funding formula coupled with significant delays in receiving annual renewal funding allocations. The combined factors had forced DSS to drastically reduce leased units during the year prior to the audit period. The Omnibus Appropriations Act of 2008 provided sufficient clarification regarding funding availability to allow the department to resolve this problem. Ninety five percent (95%) of the 6,462 authorized units are leased and 128% of the Budget Authority was expended for the month of August. We are continuing the lease up additional units and 100% of the units will be leased by the end of calendar year 2008.

Comment 2

Finding 2: More than $1 Million in Program Income and Interest Earned Was Not Property Accounted for, Reported, and Returned in Accordance with HUD's Requirements.

The department has implemented an aggressive policy with regards to tenant fraud and collection on repayment agreements. Although there is a tenant repayment system in place, I concur that there is a better method to collect and track these payments. In accordance with the audit finding, work has begun to implement an entirely new system to collect, report and return payments in compliance with HUD requirements. We anticipate recovery from the contractor and an analysis of the funds and interest earned will be completed no later than October 1, 2008.

Comment 3

Finding 3: The Agency Could not Support More than $1.6 Million in Expenses and Charged $14,000 in Ineligible Costs to the Voucher Program.

The Department of Social Services contracts with a consulting firm to do annual cost allocation planning for the agency as required by the Department of Health and Human Services (HHS). In response to this audit, $1.6M in expenditures incurred during the audit period related to housing unit staff salaries and benefits were analyzed. The department concurs that funds, though not used inappropriately, were not supported properly and will implement the consulting firm's recommendation of a housing unit based allocation method for all housing services staff salaries and other related costs.

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This methodology should be amenable to HUD as well as HHS. The change will go into effect October 1, 2008 as part of the upcoming Cost Allocation Planning amendment to HHS.

The department agrees with the audit regarding $14,000 in ineligible costs charged to the Section 8 HCV Program and will reimburse the federal account from state funds.

If you have any questions, please feel free to contact me at 860-424-5860 or mary.cattanach@ct.gov .

Sincerely,

Mary F. Cattanach
Program Supervisor, Housing Services Unit

cc: Kevin Loveland, Director, Bureau of Assistance Programs
Carissa Riddle, Program Center Coordinator, HUD, Hartford

OIG Evaluation of Auditee Comments

Comment 1 The agency concurred with the finding and has taken corrective action to increase voucher utilization. According to the agency it had leased over 95 percent of the available vouchers as of August 2008. The agency needs to ensure that it has adequate controls in place to ensure voucher utilization stays at or above the required 95 percent.

Comment 2 The agency concurred with the finding and recommendations. The agency has begun taking corrective action and expects to complete an analysis of the funds and interest earned in the repayment account by October 1, 2008.

Comment 3 The agency concurred with the finding and recommendations. The agency has contracted with a consulting firm to establish an adequate cost allocation for salary and benefit expenses. The agency must repay any unsupported costs and agreed to repay the ineligible costs from non-federal funds.