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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 3, 2008

Ms. Priscilla Almodovar
President and Chief Executive Officer
NYS Housing Finance Agency
641 Lexington Ave.
New York, NY 10022

Re: Report 2008-F-7

Dear Ms. Almodovar:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution, we have followed up on the actions taken by officials of the New York State Housing Finance Agency (HFA) to implement the recommendations contained in our audit report, *Senior Housing Finance Program* (Report 2006-S-29), issued November 9, 2006.

Background, Scope and Objective

HFA was created as a public benefit corporation in 1960 to finance low-income housing. In 2000, HFA created the Senior Housing Financing Program (Program) to provide financing for the new construction and rehabilitation of affordable senior rental housing. Regulatory Agreements are made between HFA and developers that stipulate the age and income requirements, among other conditions, for each development. Most of the units funded by the Program are set aside for households occupied by at least one person who is 55 years of age or older, with an income at or below 50-60 percent of the Area Median Income (AMI).

HFA's Housing Portfolio Management unit is responsible for monitoring the operations of the Program and ensuring the housing developments are in compliance with the Regulatory Agreement. At the time of our initial audit, the Program had provided low-cost financing, totaling \$251 million, to 37 apartment developments throughout the State. These developments contain 3,925 rental units.

Our initial audit report examined compliance with requirements of the Program pertaining to age and income eligibility for tenants accepted into Program-funded housing development units; and determined whether Program-funded housing developments submit required compliance reports and certifications to HFA and maintain significant legal documents in tenant files. Our report found that most tenants living in Program-funded senior housing developments met age and income eligibility

requirements, based on the information included in the development managing agent's files. However, our analysis of the documents contained in these files led us to believe the income verification process needs to be improved. In addition, although Program-funded housing developments did submit required reports and certifications, some submitted them late. Finally, some lease agreements were not current and some required HFA lease riders were missing. The objective of our follow-up was to assess the extent of implementation as of June 11, 2008, of the six recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that HFA officials have made progress in correcting the problems we identified. However, additional improvements are needed. Of the six prior audit recommendations, three recommendations have been implemented, one recommendation has been partially-implemented, one recommendation has not been implemented, and one recommendation is no longer applicable.

Follow-up Observations

Recommendation 1

Confirm the disabled tenant at Jonas Bronck met eligibility requirements.

Status - No Longer Applicable

Agency Action - HFA officials explained that they are unable to obtain additional documentation to confirm the disability of the tenant as the tenant moved from the Jonas Bronck development in October 2006.

Recommendation 2

Require managing agents to obtain a Request for Copy of Tax Return form (IRS Form 4506) from all prospective tenants to verify completeness of income with the IRS.

Status - Partially Implemented

Agency Action - HFA has revised its procedures to include the use of IRS form 4506 when other types of documentation, such as Federal Income Tax Return, Form W-2, or third-party verification (e.g., by an applicant's employer or the Social Security Administration), are not available.

Recommendation 3

Develop a policy and procedures manual. Include information on how to address unique circumstances.

Status - Not Implemented

Agency Action - HFA officials maintain that, due to the complex nature of the Program and various funding sources, they continue to rely on a variety of resources and promulgations to assist agency staff in administering the Program. We maintain that a uniform, codified set of Program-specific procedures would be of valuable assistance to both HFA personnel and housing managing agents and would facilitate determinations of tenant eligibility.

Recommendation 4

Improve documentation of HFA eligibility compliance reviews.

Status - Implemented

Agency Action - HFA updated its compliance review documentation to include specific age verification sources as well as a separate income and asset worksheet. When we reviewed ten randomly-selected tenant files of one managing agent, we confirmed that all contained the necessary age and income source documentation.

Recommendation 5

Ensure managing agents submit required reports in a timely manner.

Status - Implemented

Agency Action - HFA officials stated that they will continue to monitor via written correspondence, email, and telephone calls to ensure that managing agents submit required reports in a timely manner. We observed the tracking system established to monitor submittal of the required reports. We also saw evidence that HFA was attentive to late or missing submissions and followed up on these situations with the managing agents.

Recommendation 6

Ensure all leases and lease riders are current.

Status - Implemented

Agency Action - HFA has incorporated a review of the lease and lease riders to the checklist used during their annual and tri-annual Management and Occupancy Reviews. We judgmentally selected 2 managing agents and confirmed that 20 judgmentally-selected tenant files maintained by those agents all contained current leases and lease riders.

Major contributors to this report were Myron Goldmeer, Jeremy Mack, and Katrina Lau.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Agency for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Cindi Frieder
Audit Manager

cc: Tom Lukacs, Division of the Budget
Stephen Chohey, Director Internal Audit