



Monticello Housing Authority Housing Choice Voucher Programs

Report of Examination

Period Covered:

April 1, 2015 – April 20, 2016

2016M-272



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

Dear Housing Authority Officials:

A top priority of the Office of the State Comptroller is to help authority officials manage their authorities efficiently and effectively and, by so doing, provide accountability for dollars spent to support authority operations. The Comptroller oversees the fiscal affairs of authorities statewide, as well as authorities' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving authority operations and Board governance. Audits also can identify strategies to reduce authority costs and to strengthen controls intended to safeguard authority assets.

Following is a report of our audit of the Monticello Housing Authority, entitled Housing Choice Voucher Programs. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the New York State Constitution.

This audit's results and recommendations are resources for authority officials to use in effectively managing operations and in meeting the expectations of taxpayers. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Village of Monticello Housing Authority (HA) is located in the Village of Monticello (Village) in Sullivan County (County). The HA was established pursuant to Section 470 of New York State Public Housing Law (Law) to provide low-cost housing for qualified individuals in accordance with relevant provisions of the Law and the rules and regulations prescribed by the United States Department of Housing and Urban Development (HUD).

The HA is governed by a Board of Commissioners (Board) that is composed of five Commissioners. The HA bylaws require that the Village's Mayor appoints three Commissioners and the tenants elect two. The Board is responsible for the general management and control of the HA's financial affairs. The Board appoints an Executive Director (Director), who is the HA's chief executive officer and is responsible for the day-to-day operations. The HA also has a Deputy Director who assists in the day-to-day operations. The Housing Choice Voucher (HCV) Program Coordinator and Family Self-Sufficiency (FSS) Program Coordinator administer and oversee the respective programs.

The HA's 2016-17 fiscal year operating budget totaled approximately \$1.1 million and is funded primarily by rental income from tenants and HUD subsidies. The HA administers both its own 98 public housing units and just over 400 HCVs. HUD has authorized the HA to increase the HCVs to over 550. The HCV program provides rental assistance to low-income families. The HA receives funding through HUD for the program. The HA maintains a waiting list and selects families for admission into the HCV program.

The families participating in the HCV program choose their housing from the private market. The HA makes the housing assistance payments directly to the property owners on behalf of the families. The HA also administers the FSS program. The FSS program is intended to help families participating in the HCV program who are unemployed or underemployed achieve economic independence. Currently, approximately 70 participating families are enrolled in the FSS program.

Objective

The objective of our audit was to assess the HA officials' and staff's administration of the HCV programs. Our audit addressed the following related question:

- Did HA officials and staff effectively manage the HCV programs?

**Scope and
Methodology**

We assessed the HA’s administration of the HCV and FSS programs and examined various documents related to these programs for the period April 1, 2015 through April 20, 2016. We extended our audit scope forward to April 30, 2016 to review bank statements and include participants who received a HCV and were removed from the waiting list during this time. We also extended our audit scope forward to June 1, 2016 to include any initial inspections required.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of Authority
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with HA officials, and their comments, which appear in Appendix A, have been considered in preparing this report. HA officials agreed with our findings and indicated they have taken corrective action.

Good management practices dictate that the Board has the responsibility to initiate corrective action. As such, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Housing Choice Voucher Programs

HA officials and staff are responsible for effectively managing the HCV program to safeguard taxpayers' money. This responsibility includes establishing policies and procedures over the application and selection process, reexamination of participants' eligibility, housing inspections, disbursements to owners, and oversight of the FSS program. Accordingly, HA officials and staff should ensure that applicants are selected fairly and consistently; participants are eligible and continue to be eligible for the program; participants are living in decent, safe and sanitary housing; amounts disbursed to owners are supported, accurate and appropriate; and FSS program participants are meeting program requirements.

Generally, HA officials and staff are effectively managing the HCV programs. They appropriately established policies and informal procedures over the HCV and FSS programs. HA officials and staff ensured applicants were selected fairly and consistently and were initially and continually eligible for the program. Furthermore, HA officials have hired an independent consultant to perform the necessary housing inspections to ensure participants are living in decent, safe and sanitary housing. Additionally, HA staff generally ensured that disbursements to owners were supported, accurate and appropriate and that FSS program participants were generally meeting program requirements.

Application, Selection and Reexaminations

HUD requires HA officials to establish policies and procedures regarding the application and selection process within the HCV program. The HA may also establish a system of preferences for admittance into the program. HUD also requires HA officials to reexamine the income and composition of HCV program participants on an annual basis to verify eligibility. Using updated income, assets and family composition, HA staff should recalculate the total tenant payment and the housing assistance payment (HAP) to be paid to the owner. These policies and procedures help ensure applicants are selected fairly and consistently and remain eligible for the program.

HA officials have established a policy requiring applicants be awarded vouchers on a first-come, first-served basis with a preference given to applicants living in the County. HA officials also established a policy that requires the reexamination of a HCV program participant by the anniversary date of the last HAP recalculation. While there are no formal written procedures to ensure the policies are followed, staff follow informal procedures during the application, selection and reexamination processes to ensure applicants are selected based on

the established policy, reexaminations are performed annually and participants remain eligible.

We reviewed all 29 applicants that received vouchers during our audit period and confirmed they were County residents and that they were selected on a first-come, first-served basis. We reviewed an additional 20 HCV program participants and determined all met the established eligibility requirements. Additionally, we reviewed reexamination documents for 20 HCV program participants¹ and found that reexaminations occurred on an annual basis. We confirmed that staff obtained updated income and family compositions and ensured those same 20 participants remained eligible for the program. Additionally, we determined that the HCV Program Coordinator and Deputy Director's calculations of total tenant payments and HAPs were accurate.

Housing Inspections

HA officials are required by HUD to ensure Housing Quality Standards (HQS) inspections, including initial and biennial inspections, are performed. HQS inspections ensure that housing is decent, safe and sanitary. Inspections result in a pass or fail rating. Property owners are given 30 days to correct any non-life threatening infractions that caused the HQS inspection to fail. If the infractions are not corrected after 30 days, HA officials must stop paying the HAP to the owner.

HA officials and staff generally ensured that HQS inspections were performed in a timely manner. HA officials hired an independent contractor to conduct both initial and biennial HQS inspections. The HCV Program Coordinator generates a monthly report of all biennial inspections due based on the prior inspection date and assigns both the initial and biennial inspections to the inspector.

We reviewed documentation of 20 initial inspections and found all but one were performed prior to the first payment to the property owner. We also examined documentation of 20 biennial inspections and found all were performed within two years of the last inspection. While nine of these properties failed the initial biennial inspection, they passed the follow-up inspection. Our visual inspection of the exterior of 15 HCV program properties found no observable issues.

Disbursements to Owners

HA officials and staff are responsible for establishing adequate procedures for ensuring that payments to property owners are accurate and appropriate. These procedures should include the assignment of duties within the disbursement process so that no one person performs all aspects of the disbursement functions. If segregation of duties is not possible, compensating controls should be implemented. For

¹ See Appendix B, Audit Methodology and Standards, for details on all of our sample selections.

example, someone independent of the disbursements function could review monthly bank reconciliations and canceled check images, and the Board could review monthly reports of disbursements made to owners. Otherwise, there is a risk that improper payments could be made.

While HA staff have not established formal written procedures, they generally ensured that payments to property owners were accurate and for appropriate purposes. The majority of disbursements to owners are paid through electronic transfers into landlord bank accounts. The HCV Program Coordinator processes the electronic transfers, prepares paper (non-electronic) checks to owners and remits those checks to the Director for signature. The Director performs monthly bank reconciliations, and a third-party accountant reviews the reconciliations and canceled check images quarterly.

However, the Board does not receive a report of disbursements made to owners. We reviewed 20 disbursements made to owners totaling over \$10,600 to determine whether they were accurate and for appropriate purposes. We found no discrepancies.

The Director was unaware that there was an increased risk due to the lack of independent review of the report of disbursements to the owners to the Board. After we informed the Director of the weakness, she told us she would begin giving the Board a monthly report of disbursements to the owners.

Family Self-Sufficiency Program

The FSS program is intended to help eligible families achieve economic independence. HUD requires HA officials to develop a FSS program action plan that describes the policies and procedures for the program's operation. Program participants are required to execute a Contract of Participation (COP) between the HA and the heads of household. This contract specifies the obligations of each party and requires that all goals established in the Individual Training and Service Plan (ITSP) be completed within five years. The HA FSS Program Coordinator should monitor the goals within the COP at least annually.

HUD requires HA officials and staff to deposit funds on a monthly basis into an escrow account on behalf of FSS program participants during their COP. The full amount in the escrow account is paid to the family when they have completed the COP and the heads of household have certified that they have not received cash welfare assistance for the previous 12 months or when 30 percent of the participants' income equals or exceeds the fair market rent for the family. The COP is considered complete when the family has completed all the activities in their ITSP. However, the FSS program also allows for interim

disbursements of escrow funds if the FSS Program Coordinator and Director determine that the family has fulfilled established interim goals and a portion of the FSS escrow account funds are required for purposes consistent with the COP. Furthermore, the escrow account should be reconciled at least annually.

HA officials developed an FSS program action plan that describes the policies and procedures over the program. The action plan includes the requirement of the reexamination and tracking of the COP's goals. HA officials also appropriately established an escrow bank account and subsidiary ledgers tracking each participant's escrow account amount.

We reviewed 20 FSS program participants' records and found the FSS Program Coordinator properly tracked the goals and performed appropriate reexaminations. Additionally, we reviewed 20 other FSS program participants' records and verified that all had COPs completed and signed by the heads of household. We recalculated 20 FSS program participants' monthly escrow credit amounts and determined that the FSS Program Coordinator calculated them correctly. We also reviewed all five of the interim disbursements within our audit scope totaling almost \$7,700 and found all were properly supported and for appropriate purposes. Additionally, the Director accurately reconciled the escrow account annually.

Further, we tested all five of the final disbursements within our audit scope totaling approximately \$30,700 and determined that the amounts disbursed were accurate and appropriate. However, the heads of household did not certify that their families had not received cash welfare assistance in the previous 12 months. We reviewed additional documentation supporting these five families had not received cash welfare assistance during their participation in the FSS program. The FSS Program Coordinator and Director told us there was turnover in the FSS Program Coordinator position. The FSS Program Coordinator plans to implement procedures ensuring applicants designated as the head of household sign the certification.

By effectively managing the HCV programs, officials are protecting taxpayers' money and ensuring appropriate individuals are receiving housing benefits. However, without adequate segregation of duties or compensating controls in place over disbursements, there is an increased risk that improper payments could be made without timely detection. Further, when applicants do not certify the required documents, there is a risk they could receive inappropriate benefits. HA officials should:

Recommendations

1. Ensure the Board receives the monthly HCV program disbursement report for review.
2. Develop FSS program disbursement procedures to ensure documentation is signed by the head of household certifying their family has not received welfare assistance within the previous 12 months.

APPENDIX A

RESPONSE FROM AUTHORITY OFFICIALS

The Authority officials' response to this audit can be found on the following page.



Monticello Housing Authority

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October 27, 2016

H. Todd Eames, Chief Examiner
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State Office Building, Room 1702
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Dear Mr. Eames,

Please accept this as the Monticello Housing Authority's Response and Corrective Action Plan to:

Monticello Housing Authority Housing Choice Voucher Programs
Report of Examination Period Covered: April 1, 2015 – April 20, 2016
2016M-272

The following are the Audit Recommendations:

1. Ensure the Board receives the monthly HCV program disbursement report for review.
2. Develop FSS program disbursement procedures to ensure documentation is signed by the head of household certifying their family has not received welfare assistance within the previous 12 months.

Implementation Plan of Action:

1. The Executive Director will include a monthly HCV program disbursement report in the monthly Executive Director Report that is distributed to each Board Member before each board meeting.
2. The FSS Coordinator has developed a certification form for each graduating FSS participant to complete stating that no one in the family has received welfare assistance within the previous 12 months. The form will be signed by the head of household. The FSS funds will not be disbursed unless the form is properly executed.

Implementation Date:

1. The Audit Recommendation #1 was implemented with the first monthly report following the recommendation.
2. The Audit Recommendation #2 was implemented immediately following the recommendation.

Person Responsible for Implementation:

1. The Executive Director is responsible for implementing the Audit Recommendation #1.
2. The FSS Coordinator is responsible for implementing the Audit Recommendation #2 and will be checked by the Executive Director.

Signed

Anne Cahill Johansen
Executive Director

10/27/16
Date

Monticello Housing Authority is an Affirmative Action Equal Opportunity Employer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We conducted interviews with HA officials and staff to gain an understanding of the HCV and FSS programs including the processes over the application and selection, reexamination, housing inspections, and disbursements to owners and within the FSS program and the escrow accounts. Additionally, we reviewed policies and procedures that officials developed over these programs.
- We selected the first 10 applicants from a total of 103 applicants from the manual log book beginning June 1, 2015, when the waiting list was re-opened. We determined that the applications were entered into the manual log book and computerized waiting list in the appropriate order.
- We selected all 29 applicants that received a HCV from August 31, 2015 through April 30, 2016 and compared the date and time stamp of these applicants to those applicants that remained on the waiting list to determine that applicants were receiving HCV in the appropriate order.
- We selected a sample of the first 20 participants awarded HCVs from an alphabetically sorted list from 29 awarded HCVs from June 1, 2015 through April 30, 2016. We determined that they met eligibility requirements established by HUD.
- We randomly selected a sample of 20 HCV participants from a total of 412 HCV participants during our audit period. We verified their annual reexaminations were performed timely and accurately.
- We reviewed housing inspection documentation of a different randomly selected sample of 20 HCV participants from the total 412 HCV participants to determine that biennial inspections were conducted in a timely manner. If any housing unit failed the first inspection, we confirmed a re-inspection was done and the required repairs were made.
- We randomly selected a sample of 20 housing units that required an initial inspection from a total of 105 housing units needing an initial inspection from June 1, 2015 through June 1, 2016. We verified that an initial inspection was done prior to the first HAP.
- We randomly selected a sample of 20 FSS program participants from the total 66 FSS program participants and verified that there was a COP signed by the heads of household, they were eligible to participate in this program and the COP was adequate.
- We randomly selected another sample of 20 FSS program participants from the total 66 FSS program participants to determine that annual reexaminations were conducted and goals were met and tracked.
- For all the above eight bullets, as part of our sampling methodology, we also reviewed the reports for any applicants or participants with the same last name as any of the HA officials and staff; however, we did not note any.

- We randomly selected 15 HCV participants' housing units from the total 412 HCV participants during our audit period and visually inspected the housing to determine that it was decent. We attempted to verify that the HCV participant was still living at the location.
- We scanned all the HA's bank account statements and cleared check images for the period April 1, 2015 through April 30, 2016 to determine that there were no withdrawals or checks written to cash or to HA officials and staff that were not payroll related.
- We randomly selected December 2015 and January 2016 and obtained the owner disbursement reports for these months. We randomly selected 10 disbursements to owners for each month from the total 386 and 392 disbursements in each respective month to verify that amounts disbursed were appropriate and accurate.
- We selected all 20 FSS program participants who had monthly escrow account credits and verified that the correct amounts were credited to the participants' escrow account.
- We reviewed all five interim FSS program disbursements paid during our audit period to determine that HA officials' guidelines were followed and the funds were properly used.
- We reviewed all five final FSS program disbursements paid during our audit period to determine that the participant completed COP goals, the heads of household certified they did not receive any welfare assistance in the last 12 months, and the amounts disbursed met HUD guidelines and were accurate.
- We reviewed the Director's March 2016 annual escrow account reconciliation and determined that it was performed timely and accurately.

We conducted this performance audit in accordance with GAGAS. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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