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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 18, 2021

RuthAnne Visnauskas
Commissioner/Chief Executive Officer
Homes and Community Renewal
Hampton Plaza
38-40 State Street
Albany, NY 12207

Re: Controls Over Federally Funded
Programs and Maximization of Federal
Funding
2020-S-48

Dear Ms. Visnauskas:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have conducted an audit of Homes and Community Renewal (HCR) to determine whether its Division of Housing and Community Renewal (Division) is obtaining federal reimbursements on time and in a manner that recovers all costs, and adequately ensures the Weatherization Assistance Program (WAP) meets federal reimbursement documentation requirements. The audit covered the period from April 1, 2017 through December 31, 2020.

Background

HCR is the State's affordable housing agency, with a mission to build, preserve, and protect affordable housing and increase homeownership throughout New York State. The Division administers the WAP, which aims to reduce energy and utility costs by installing energy efficiency measures in the homes of income-eligible persons, especially those occupied by the elderly, persons with disabilities, and families with children. The WAP is intended to reduce the State's overall energy consumption as well as carbon emissions that contribute to climate change. It also seeks to lessen the impact of higher energy costs on low-income families and improve the health and safety of assisted households.

The Division receives funding for the WAP from both the U.S. Department of Energy (DOE) and the U.S. Department of Health and Human Services (HHS). DOE funding is allocated directly to the Division based on a formula that considers the income-eligible population and climate conditions. DOE sets the requirements for all WAP reimbursements. HHS distributes Low-Income Home Energy Assistance Program (HEAP) funds directly to the Office of Temporary and Disability Assistance (OTDA), which then passes 10% of that funding to the Division each year. OTDA and the Division have an annually renewed Memorandum of Understanding (MOU) that establishes the Division's allocation amount and defines their respective roles and responsibilities in administering HHS funding. OTDA is responsible for

administering and overseeing the program in accordance with the HEAP State Plan, while the Division is responsible for the weatherization component, which includes ensuring subcontractor compliance with program requirements. The Division is also responsible for assisting OTDA in overseeing HHS funding by compiling and submitting quarterly fiscal reports. HHS funding appropriated under each MOU must be obligated during the same federal fiscal year (FFY) it is awarded and expended by the end of the following FFY. Any funds the Division receives from either HHS or DOE that it does not expend must be returned to OTDA or DOE.

The Division implements the WAP through a network of local organizations that provide weatherization services. These WAP subgrantees are the first point of contact for low-income households, who are the primary beneficiaries of WAP assistance. They also serve multi-family building owners, who partner in the weatherization process. Weatherization activities include air sealing to prevent air infiltration and reduce drafts, insulation to reduce heat loss, and modifications to heating systems. Subgrantees perform most of the functions that are necessary to meet program goals and follow procedures to ensure compliance with all program requirements. Program funding is allocated to each county using a formula that factors in climate and the share of low-income households in each county. As of December 31, 2020, there were 51 subgrantees serving the State's 62 counties.

The Division has established policies and procedures that cover the administration of federal WAP funding, and stated it conducts regular reviews to monitor subgrantee compliance with funding submission rules. The Division has a WAP Policy and Procedures Manual that covers, among other things: eligibility; application and selection of households and buildings that are eligible for assistance, including documentation requirements; the weatherization process; procurement; reporting and payment; and conflict of interest. Additionally, Division officials conduct an annual evaluation of each subgrantee to ensure compliance with program rules and regulations. These evaluations cover both program and fiscal areas, and each subgrantee is rated in 11 areas, including program management, operations, quality assurance, and reporting and record keeping.

In general, according to Division policy, buildings submitted to the Division for payment must be fully complete and must have passed a post-inspection completed by a certified Quality Control Inspector before the subgrantee can request payment from the Division.

All subgrantees must submit a payment request, consisting of a Consolidated Weatherization Status Report (CWSR) and a standard voucher, to the Division by the 20th of each month, as well as within 30 days after the last day of each budget period. The CWSR is the subgrantee's activity and expenditure report, and is the basis for determining the amount of reimbursement to be paid to the subgrantee. Failure to submit CWSRs in a timely manner may result in payments being suspended.

To receive and continue receiving federal funding, the Division must expend and account for WAP awards in accordance with federal statutes, regulations, and terms and conditions of the award. The Division should maximize its federal funding to the extent possible. According to the New York State Guide to Financial Operations, State agencies are responsible for monitoring all project budget levels. They should make every effort to disburse and/or adjust all unspent federal awards as soon as possible, but no later than June 30 for awards that are scheduled to be closed the following September.

The Division was appropriated a total of \$92,317,035 from DOE between April 1, 2017 and December 31, 2020 and a total of \$163,539,842 from HHS (through OTDA) between

October 1, 2016 and December 31, 2020. WAP funds were used to weatherize 18,418 units occupied by 38,110 individuals between April 1, 2017 through September 30, 2020. We reviewed \$212,333,241 of the \$255,856,877 (the remaining funding was either out of our scope or not due to be expended within our scope period due to various extensions).

Results of Audit

Generally, the Division has established controls to ensure that the WAP meets federal reimbursement documentation requirements and that the Division receives federal reimbursements on time and in a manner that recovers all funds. However, the Division lost \$120,475 in federal funding during our audit period because it was not expended by program deadlines, primarily due to a decrease in production caused by the COVID-19 pandemic. The Division should identify possible steps that could be taken to mitigate potential future losses of federal funds caused by unexpected events.

Timing, Allocation, and Administration of Funds

Between October 1, 2016 and December 31, 2020, the Division was granted four HHS awards (through OTDA) totaling \$163,539,842. We reviewed the first three awards, totaling \$120,016,206, that were due to be spent by September 30, 2020; however, as a result of the COVID-19 pandemic, OTDA and the Division agreed to extend the deadline to spend obligated funds for the 2018-19 award until December 31, 2020. Approximately \$462,752 in unused funds related to this award was originally due to be returned by the Division on September 30, 2020. However, with OTDA's extension, the Division was able to spend an additional \$367,240, reducing the returned amount to \$95,512. In total, the Division expended \$119,895,731 of the \$120,016,206 in HHS funding that was required to be spent by September 30, 2020 and returned \$120,475 in unused funds to OTDA. This returned amount included the \$95,512 from the 2018-19 award discussed above, \$24,944 from the 2017-18 award, and an additional \$19 that was returned in error. According to officials, the Division returned an unusually large balance for the 2018-19 award because COVID-19 shutdowns played a significant role in decreasing production during 2020.

We reviewed quarterly fiscal reports submitted during our audit period and found the Division generally spent between 7% and 31% of HHS funding within the first FFY of each award, while the remaining funding was expended during the second FFY. As a result, any unforeseen events that limit expected production could result in the loss of a significant portion of funds that the Division planned to spend near the end of the grant period. Because OTDA granted the Division a deadline extension due to the COVID-19 pandemic, officials were able to make adjustments and avoid a greater loss of funds. However, had the pandemic begun later in the funding period or extensions not been granted, the Division may have lost out on substantially more funding. While officials disagree that they could have anticipated the conditions presented by the pandemic, they also acknowledge that the pandemic provided "lessons learned" for future consideration. As of December 31, 2020, the Division had until September 30, 2021 to expend \$32,751,285 of the \$43,523,636 authorized for the 2019-20 award. Officials stated that they have obligated the entire remaining \$32.7 million and that, as pandemic-related restrictions ease, the Division will continue working toward expending federal funding within required time frames.

Between April 1, 2017 and December 31, 2020, the Division expended \$81,391,549 of the total \$92,317,035 in DOE funding. Due to the COVID-19 pandemic, DOE extended the Division's grant period twice – first until March 31, 2021 and a second time until March 31, 2022.

We reviewed all the quarterly reports that the Division submitted to DOE for the \$81,391,549 and verified that it was expended and disbursed to the subgrantees. Of the \$10,925,486 left to be expended before the current grant period ends, the Division has obligated \$8,225,482, while the remaining \$2,700,004 remained unobligated as of December 31, 2020. According to Division officials, they can roll over funding between program years in the same grant period; therefore, any unused funds budgeted for one year can be used in the following year(s) until the grant period expires. As of December 31, 2020, the Division had until March 31, 2022 to expend the \$10,925,486 or it will be returned to DOE.

DOE and OTDA also conduct audits of the Division's administration of the WAP. We reviewed the most the recent DOE audit, conducted in October 2020. The audit had only one finding and minor areas of concern that were not specifically related to our audit objectives. OTDA began an audit of DHCR's administration of HHS funding in 2019. While that audit was put on hold due to the COVID-19 pandemic, we met with OTDA officials, who stated that, to date, they have not identified any material findings.

Administration of Subgrantees

We reviewed payments for two subcontractors whose anticipated funding was about \$6 million for the period April 1, 2020 – March 31, 2021. We reviewed payment vouchers for approximately \$725,000 submitted by each of the two subgrantees as well as the CWSR, which includes cumulative financial reports, building project reports, and building submittal reports showing details for each building serviced, including the weatherization completion dates and location where weatherization services were provided, and standard vouchers. Overall, we determined that both subgrantees properly submitted for reimbursement for completed projects and did so in a timely manner. We did, however, identify one reimbursement, totaling \$6,642, in March 2019 for a building that was completed in June 2017. Subgrantee officials stated that they had mistakenly omitted this reimbursement request in 2017. They discovered the error while training an employee and reported the building in the next reimbursement request in March 2019.

We also reviewed evaluations from 2017 through 2019 for the two subgrantees. The evaluations had only minor suggestions for improvement, such as improving data entry of required information into the database and meeting Minority/Women-Owned Business Enterprises goals. The first 2 years of evaluations for one of the subgrantees noted they had submitted some late CWSRs; however, the subgrantee improved and did not have any late submissions, according to the 2019 evaluation.

Recommendations

1. Identify and take steps to mitigate potential future losses of federal funds caused by unexpected events.
2. Ensure all remaining funds are obligated and expended by the end of the current grant period.

Audit Scope, Objectives, and Methodology

The objectives of this audit were to determine whether the Division is obtaining federal reimbursements on time and in a manner that recovers all costs, and adequately ensures the WAP meets federal reimbursement documentation requirements. The audit covered the period from April 1, 2017 through December 31, 2020.

To accomplish our audit objectives and evaluate the relevant internal controls, we interviewed officials from the Division and reviewed applicable policies, procedures, and regulations. We reviewed all HEAP quarterly fiscal reports submitted to OTDA for each HHS award covered during our scope period. Additionally, we reviewed all federal financial reports and quarterly program reports submitted to DOE for the same period. While we also reviewed other documents related to the Division's administration of the WAP for background purposes, our review and associated testing were strictly focused on DHCR's receipt of federal reimbursements. We did not review the appropriateness of WAP expenses during this audit.

We judgmentally selected a sample of five of 52 subgrantee grant agreements to review, based on the highest dollar award allocation and geographic location in the State. We interviewed officials from two of the five subgrantees judgmentally selected to gain an understanding of their role in administering the WAP. We selected these two subgrantees based on the highest dollar amount and geographic location. One subgrantee was the largest in the State, located in Long Island; the other was the third largest, located in Central New York – together, they accounted for \$6,014,721 of \$61,506,853 in anticipated funding for the period April 1, 2020 – March 31, 2021 (broken down by subgrantee, based on the 2020 WAP State Plan). We conducted interviews and reviewed a judgmental sample of payment submittal documentation for 2 months (last month of the first FFY and last month of the second State fiscal year) from each of the two subgrantees to determine if they are submitting for and receiving reimbursement from the Division in a timely manner. One subgrantee had only one project submittal and the other had two. We looked at the CWSR, which includes building project reports and cumulative financial reports, and standard vouchers for each of the monthly submittals in our sample. We also reviewed building submittal reports for two buildings from each of the three project submittals, including one that was not submitted timely, for a total of six of the 52 buildings with weatherization services. These reports detailed each building serviced, including the weatherization completion dates and location where weatherization services were provided.

Statutory Requirements

Authority

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

We conducted our 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.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial

statements; and approving State contracts, refunds, and other payments. These duties could be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent performance audit of the Division's oversight and administration of controls over federally funded programs and maximization of federal funding.

Reporting Requirements

A draft copy of the report was provided to Division officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety to the end of it. Officials generally agreed with our second recommendation but took exception to the first. We have clarified our position in the attached Comptroller's Comment, which is embedded within the Division's response.

Within 180 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Homes and Community Renewal shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

Major contributors to this report were Heather Pratt, Andrea LaBarge, Charles Lansburg, Ryan Gregory, and Melissa Patnaude.

We wish to thank the management and staff of the Division of Housing and Community Renewal for the courtesies and cooperation extended to our auditors during this audit.

Yours truly,

Nadine Morrell, CIA, CISM
Audit Director

Agency Comments



ANDREW M. CUOMO
Governor

Homes and
Community Renewal

Division of Housing
and Community
Renewal

RUTHANNE VISNAUSKAS
Commissioner/CEO

July 22, 2021

Ms. Nadine Morrell
Audit Director, Division of State Government Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Re.: Report 2020-S-48, Controls Over Federally Funded Programs and Maximization of Federal Funding

Dear Ms. Morrell:

This shall serve as our response to the reported results of the above-referenced audit of the NYS Division of Housing and Community Renewal's (DHCR) Weatherization Assistance Program (WAP).

In summary, DHCR notes that the audit scope overlapped with the Covid-19 Pandemic and therefore the findings, while minor, are not reflective of normal program operations.

The audit results highlight DHCR's ability to successfully manage a federally funded program during a global pandemic, delivering needed services to constituents and spending down awards. OSC's overall conclusion is correct, "the Division has established controls to ensure that the WAP meets federal reimbursement documentation requirements and that the Division receives federal reimbursements on time and in a manner that recovers all funds."

Following are our responses to the reported audit observations and recommendations:

Recommendation 1: Identify and take steps to mitigate potential future losses of federal funds caused by unexpected events.

Agency Management's Response: HCR has learned a lot from COVID and is consistently reworking its risk assessment strategies, but disagrees with the recommendation in this instance. The agency has a robust risk assessment program, and OSC has not identified any problems in their reporting to suggest otherwise.

Despite unprecedented conditions presented during the COVID-19 pandemic, DHCR was able to spend down over 99 percent of its HEAP award to weatherize the homes of low-income New Yorkers, statewide. This

was made possible by DHCR's ability to communicate and continue program operations with its weatherization subgrantee network while effectively and efficiently transitioning base operations to the remote environment.

The pandemic and DHCR's response provide insights for future consideration. We will continue to work with our Office of Internal Control and Risk Management to discuss these findings and possibly identify steps that could be taken to mitigate potential future losses of federal funds caused by similar catastrophic events.

State Comptroller's Comment – We acknowledge in the report that the COVID-19 shutdowns played a significant role in decreasing production, therefore reducing planned spending during our audit scope. However, DOE and OTDA both granted extensions on deadlines for spending federal funding. Without these extensions, it is unlikely the Division would have been able to expend additional federal funds. Because such extensions may not occur with future unexpected events, we maintain that the Division could identify and take steps to mitigate potential future losses of federal funds caused by unexpected events.

Recommendation 2: Ensure all remaining funds are obligated and expended by the end of the current grant period.

Agency Management's Response: DHCR agrees with this recommendation. DHCR successfully spent down \$119,895,731 – over 99 percent – of the total \$120,016,206 HHS HEAP award despite pandemic-related restrictions that impacted Weatherization Provider Subgrantees, Weatherization recipients (low-income New Yorkers) and agency staff that were operating remotely.

DHCR makes every effort to obligate and spend down its program funds effectively and timely, and our use of opportunities to extend federal grant awards is a responsible, proactive approach to maximizing use of these funds for both foreseen and unforeseeable circumstances. This effort includes our consideration and planning for the historically lower amount of HHS spending in the initial year of each award noted in OSC's report. This is a reasonable, customary pattern of expenditure for WAP which fully pays only upon completed production. Therefore, spending is generally higher in the latter period of award when more units, particularly in large multifamily buildings, are completed. As demonstrated by the results of the audit, DHCR proactively monitors and manages for this progression of program activity and spending effectively.

Please contact Ron Dickens, Director of Internal Audit and Quality Control, at (518) 486 – 6367 if you have any questions or require anything further.

Sincerely,



Melina M. Stratos

Assistant Commissioner of Operations, Office of Housing Preservation

Cc: RuthAnne Visnauskas
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